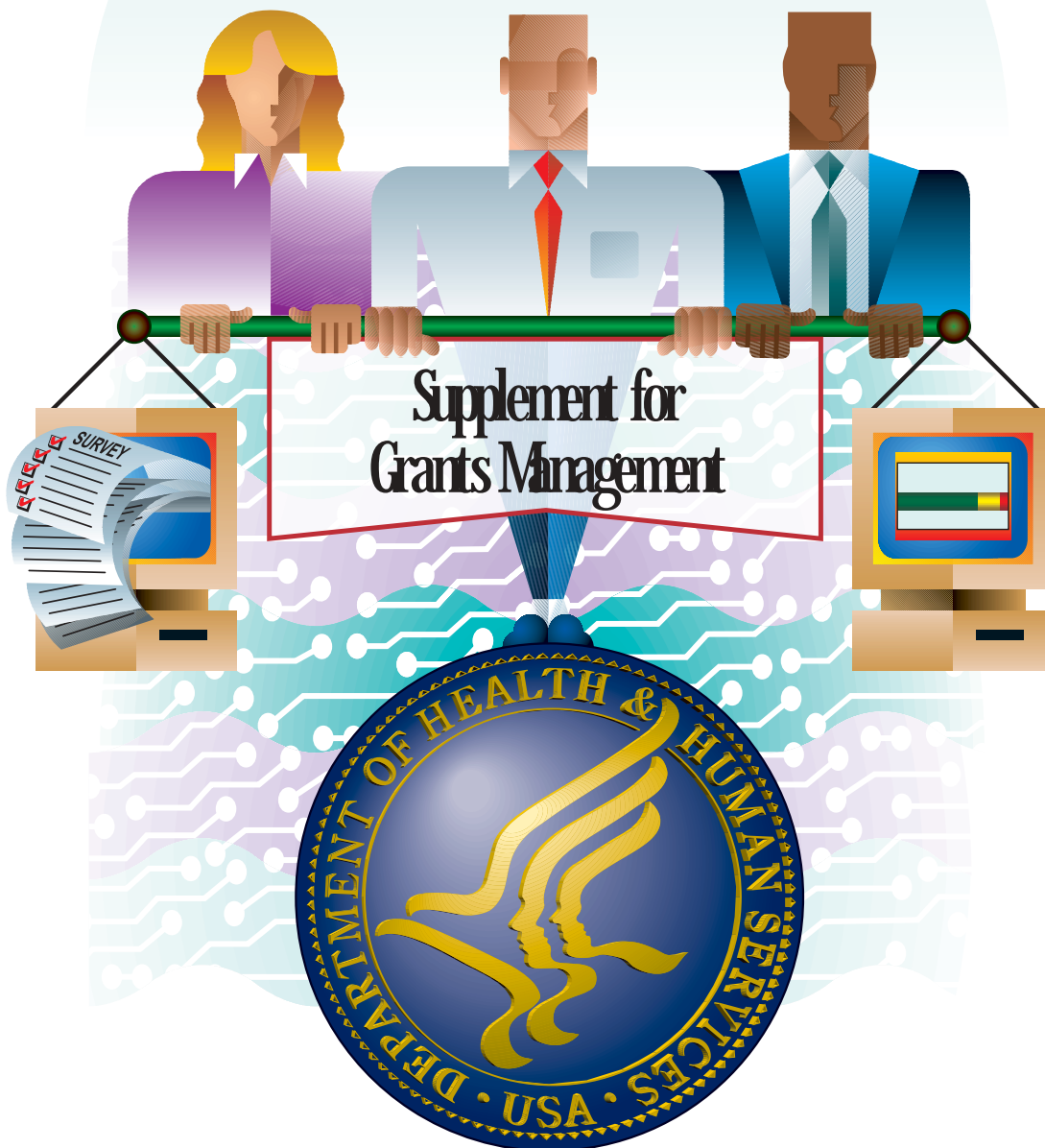


U.S. DEPARTMENT OF
HEALTH AND HUMAN SERVICES

Manual for Performance Measurement & Improvement



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HEALTH AND HUMAN SERVICES

Manual for Performance Measurement & Improvement

Supplement for
Grants Management

May 2004

Prepared by IM for HHS

Introduction

This document—a supplement to DHHS’s *Manual for Performance Measurement and Improvement*—contains materials specific to the Balanced Scorecard process for grants management.¹ Those materials are as follows:

- ◆ Four Balanced Scorecard survey instruments, each designed to elicit information pertinent to a particular group: Grants Management Office (GMO) staff, internal customers (primarily program managers and project officers), grant applicants/recipients, and managers²
- ◆ Standard survey communications, designed to provide potential survey respondents with information about the survey process and instructions for completing the survey
- ◆ Table showing the linkage of grants management survey data to the four Balanced Scorecard perspectives
- ◆ Vulnerability indicators and index for grants management.

SURVEY INSTRUMENTS

The survey instruments are designed to be used via the Internet. The front page of the survey instruments should be customized with the sponsoring OPDIV’s logo and the DHHS logo, as indicated. Also, other brackets are included within the text to indicate where the OPDIV name and the point-of-contact information should be inserted. DHHS does not permit altering or deleting any survey questions. However, OPDIVs may add questions to the surveys to meet additional needs.

¹ The Balanced Scorecard process for grants management should be repeated every 36 months. This allows enough time for improvements to be implemented and for the grants management staff, customers, and grant applicants/recipients to recognize those improvements before the next survey cycle begins.

² The survey for grant applicants/recipients covers two populations: business offices and principal investigators. Because the number of business offices is usually less than 1,000, all the offices, rather than a sample, should be surveyed. However, it may be necessary to survey a sample of principal investigators if the population exceeds 1,000. Refer to *Reference Manual for Performance Measurement* for guidance on determining whether sampling is necessary.

If paper surveys are needed, they can be copied from this supplement or printed from the web page. (Additional information on paper surveys is in Appendix A of *Reference Manual for Performance Measurement*.) When using paper surveys, provide these additional instructions to participants:

Because you do not have access to the Internet to participate in this survey, please use this paper copy. Where it indicates to select your answer, please circle the desired response category. When completed, please return the survey in the envelope provided.

SURVEY COMMUNICATIONS

The survey communications include five messages each for the GMO staff, internal customers, and grant applicants/recipients. The survey communications are designed for distribution electronically by e-mail according to the schedule provided in reference manual. The messages should be customized, where indicated, with the division name (if applicable), OPDIV, point of contact, and signatory. You may have to further customize them to some extent for a particular function or office. For example, if there is potential confusion between offices or functions, you should explain in the communication which one is the intended subject of the survey.

This section also includes paper versions of survey communications. Like the electronic versions, the paper messages should be customized where indicated by brackets.

DATA LINKS TO THE BALANCED SCORECARD

This section of the supplement links the survey data to the four Balanced Scorecard perspectives: financial, internal business processes, customer, and learning and growth. The template designed for analyzing the survey data includes a report function for generating the scores for the four different perspectives. These scores are used in the report for DHHS.

VULNERABILITY INDICATORS AND INDEX

This section lists the vulnerability indicators—both vulnerability critical indicators and other indicators—and their related scores that are considered to be the most critical in determining grants management performance. The report function of the template designed for the survey process automatically generates the scores for the most critical indicators and other indicators. These scores are used in the report to DHHS.

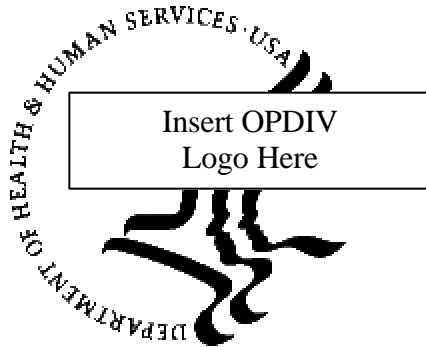
Grants Management Balanced Scorecard Survey: Grants Management Office

[OPDIV] is conducting this survey to assess the overall performance of our grants management function. We need your input to help make this assessment. Note that the survey will not be used for individual employee performance evaluations.

Please answer this survey based on the performance of your Grants Management Office during the past 12 months. If you wish to comment on any aspect of the grants function or to qualify your answer to any question, please use the Comments section at the end of the survey.

If you have questions about the survey or need technical assistance, please contact [Name] on [Telephone] or [e-mail].

Your cooperation is appreciated.



OVERALL

Q-1 To what extent do you agree or disagree that the overall quality of your work life is excellent?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree

Q-2 To what extent do you agree or disagree that your office's overall performance in the following grants process phases is excellent?

Select **one** answer for each phase.

Grants Process Phase	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Pre-award	1	2	3	4	5
Award	1	2	3	4	5
Post-award	1	2	3	4	5

POLICIES AND PROCEDURES

Q-3 To what extent do you agree or disagree with the following statements regarding your office's use of grants management policies and procedures?

Select **one** answer for each statement.

Policies and Procedures Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
In my office, grants management policies and procedures are easily accessible	1	2	3	4	5
In my office, grants management policies and procedures are easy to use and apply to job tasks	1	2	3	4	5
In my office, grants management policies and procedures are accompanied by useful instruction and guidance on how to interpret and apply them	1	2	3	4	5

PLANNING

Grants Management policy requires that annual plans are developed that identify the planned awards for the year and a schedule for completing activities leading to the award.

Q-4 To what extent do you agree or disagree with the following statements regarding your office's performance in the planning function?

Select **one** answer for each planning function.

Planning Function	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
My office works in partnership with the Program Office(s) in the development and documentation of an annual plan	1	2	3	4	5
My office ensures that annual plans are developed early enough in the grants cycle to influence the scheduling of grant events	1	2	3	4	5
My office tracks activities against the annual plan to ensure successful implementation	1	2	3	4	5

Q-5 To what extent do you agree or disagree that your office consistently reviews funding opportunity announcements (program announcements and Requests for Applications) for adequacy and compliance with policies and procedures?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree

APPLICATION PROCESSING

Grants Management Offices use a system to accurately identify and track grant applications and ensure required processing steps are completed.

Q-6 To what extent do you agree or disagree that your office has an effective grant application receipt and tracking system?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree

OBJECTIVE REVIEW

Q-7 To what extent do you agree or disagree with the following statements regarding your office's performance in the objective review function? (Select N/A if your office is not responsible for the function)

Select **one** answer for each function.

Objective Review Function	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	N/A
My office monitors proposed objective review processes to ensure compliance with policies and procedures	1	2	3	4	5	6
My office attends panel meetings and provides advice on the interpretation of policies and procedures	1	2	3	4	5	6
My office reviews the ranking list to ensure it reflects the outcome of the objective review	1	2	3	4	5	6
My office ensures the ranking list is signed, or counter-signed, by the Grants Management Officer as appropriate	1	2	3	4	5	6
My office reviews out-of-rank order award decisions to ensure that reasonable justification exists for such decisions	1	2	3	4	5	6

BUSINESS MANAGEMENT REVIEW

Q-8 To what extent do you agree or disagree with the following statements regarding your office's performance in the business management review function? (Select *N/A* if your office is not responsible for the function)

Select **one** answer for each function.

Business Management Review Function	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	N/A
My office reviews grant applicants' business management systems to ensure compliance with policy requirements	1	2	3	4	5	6
My office reviews applicants' proposed budgets to verify cost data, evaluate specific cost elements, and determine reasonableness and appropriateness of the budget	1	2	3	4	5	6

AWARD

Q-9 To what extent do you agree or disagree with the following statements regarding your office's performance related to awards?

Select **one** answer for each statement.

Award Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	N/A
My office ensures that award documentation is complete and accurate, and that it includes any special terms and conditions needed to comply with policy requirements	1	2	3	4	5	6
My office ensures that the award documentation is prepared and issued on a timely basis	1	2	3	4	5	6

POST-AWARD ADMINISTRATION

Q-10 To what extent do you agree or disagree with the following statements regarding your office's performance of post-award administration? (Select *N/A* if your office is not responsible for the function)

Select **one** answer for each statement.

Post-award Administration Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	N/A
My office tracks receipt of required financial reports, programmatic reports, and special reports required by award terms and conditions to ensure they are received on time, coordinated with the Program Office, and fully processed	1	2	3	4	5	6
My office reviews reports in sufficient depth to detect potential problems or issues (e.g., excessive drawdowns, excessive unobligated balances, earning and disposition of program income)	1	2	3	4	5	6
My office follows up, as necessary, with grantees to obtain delinquent reports	1	2	3	4	5	6
My office takes corrective action needed to address problems or issues detected	1	2	3	4	5	6
My office responds in a timely manner to requests for prior approval and other grant-specific requests or inquiries	1	2	3	4	5	6

CLOSEOUTS

Q-11 To what extent do you agree or disagree that your office performs timely grant closeouts (after the end of the project period)?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree

TECHNICAL ASSISTANCE

Grants Management Offices provide technical assistance to grant applicants and recipients on grants management policies and procedures and business and financial requirements.

Q-12 To what extent do you agree or disagree with the following statements regarding your office's performance in providing technical assistance ?

Select **one** answer for each statement.

Technical Assistance Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
My office provides technical assistance to grant applicants and recipients in a way that is consistent and fair	1	2	3	4	5
My office provides technical assistance that accurately reflects current policy and procedural requirements in statutes and regulations, departmental grant policies, and OPDIV policies	1	2	3	4	5
My office provides technical assistance in a timely manner	1	2	3	4	5

INFORMATION TECHNOLOGY

Grants management staff use personal computers, grants management information systems, networks and communications systems, and other electronic tools and aids.

Q-13 To what extent do you agree or disagree with the following statements regarding your office's use of information technology?

Select **one** answer for each statement.

Information Technology Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
In my office, information technology is easily accessible	1	2	3	4	5
In my office, information technology is accompanied by useful instruction and guidance on how to apply it	1	2	3	4	5
In my office, information technology is designed, integrated, and administered in a way that helps me perform my job tasks efficiently and effectively	1	2	3	4	5

BUSINESS PROCESS IMPROVEMENT

The business process encompasses all those work activities pertinent to the grants management function: pre-award, award, and post-award activities.

Q-14 To what extent do you agree or disagree with the following statements regarding your office's performance in business process improvement?

Select **one** answer for each statement.

Business Process Improvement Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
In my office, business process improvement is emphasized as important	1	2	3	4	5
In my office, business process improvement is measured against established goals and objectives	1	2	3	4	5
In my office, business process improvement has resulted in definite improvements in the quality and efficiency of grants management operations	1	2	3	4	5

CUSTOMER SERVICE

Q-15 To what extent do you agree or disagree with the following statements regarding your office's performance of customer service?

Select **one** answer for each statement.

Customer Service Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
My office undertakes and engages in quality customer service with its Program Office partners	1	2	3	4	5
My office undertakes and engages in quality customer service with grant applicants and recipients	1	2	3	4	5

Q-16 To what extent do you agree or disagree with the following statements regarding the relationship between your office and the Program Office?

Select **one** answer for each statement.

Technical Assistance Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
The roles and responsibilities of the Grants Management Office and Program Office are clearly defined and understood	1	2	3	4	5
The Program Offices I interact with understand grants management policies and procedures	1	2	3	4	5
The Program Offices I interact with value the role of the Grants Management Office	1	2	3	4	5
The Program Offices I interact with provide necessary information to grants management staff in a timely manner	1	2	3	4	5

Effective grants management is a collaborative effort among the Grants Management Office, Grant Policy Office, Financial Management Office(s), General Counsel, and other supporting offices in the OPDIV.

Q-17 To what extent do you agree or disagree that your office has established an effective partnership approach?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree

WORK ENVIRONMENT

Q-18 To what extent do you agree or disagree with the following statements regarding your office's work environment

Select **one** answer for each statement.

Work Environment Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Workload is distributed fairly	1	2	3	4	5
People work together effectively on teams and help each other to get the job done	1	2	3	4	5
Work units within the office communicate well with one another	1	2	3	4	5
Management communicates with me effectively	1	2	3	4	5
Management solicits my ideas and opinions regularly	1	2	3	4	5
Management recognizes a job well done	1	2	3	4	5
Management strives to improve the physical workplace	1	2	3	4	5

WORKFORCE DEVELOPMENT/TRAINING

Q-19 To what extent do you agree or disagree with the following statements regarding your office's approach to workforce development?

Select **one** answer for each statement.

Workforce Development/Training Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
I have the knowledge and skills needed to perform my job	1	2	3	4	5
I understand my roles and responsibilities	1	2	3	4	5
I am given discretion to make appropriate decisions	1	2	3	4	5
My office shows its commitment to workforce development by providing the needed time and resources for training	1	2	3	4	5
Performance plans encourage innovation, proactivity, and responsiveness	1	2	3	4	5
I have access to the training I need to perform my job	1	2	3	4	5
I have received high-quality training	1	2	3	4	5
The training I have received helps me contribute more effectively to the performance of my office	1	2	3	4	5

PRIORITIES FOR IMPROVEMENT

Q-20 If you could make changes in your Grants Management Office, which of the following would you select?

Select **only three (3)** answers.

- 1 More Grants Management Staff
- 2 Improved Use of Technology
- 3 More Efficient Work Processes
- 4 Greater Empowerment of Employees to Make Business Decisions
- 5 Improved Cooperation with Program Offices
- 6 Simplified Policies and Procedures
- 7 More Training and Development for Grants Staff
- 8 Other (please specify) _____

Q-21 If you could make changes in your relationships with the other offices involved in grants management (e.g., Program Offices), which of the following would you select?

Select **only two (2)** answers.

- 1 Timely Response to Requests
- 2 Improved Coordination and Communication
- 3 Greater Respect for my Technical Expertise
- 4 Increased Understanding of Grants Management Policies and Procedures
- 5 Other (please specify) _____

BACKGROUND

Q-22 Which of the following categories best describes your current grants management function?

Select **one** answer.

- 1 Grants Technical Assistant or Grants Assistant
- 2 Grants Management Specialist or Team Leader
- 3 Grants Management Officer or other Manager

Q-23 How long have you worked in your current Grants Management Office?

Select **one** answer.

- 1 Less than 1 Year
- 2 1 to 3 Years
- 3 4 to 6 Years
- 4 7 to 9 Years
- 5 More than 9 Years

Q-24 How long have you been working in grants management positions?

Select **one** answer.

- 1 Less than 3 Years
- 2 3 to 6 Years
- 3 7 to 10 Years
- 4 11 to 14 Years
- 5 More than 14 Years

COMMENTS

Please use this space to suggest specific changes that would improve the grants management function, or to elaborate on your answers to the previous questions.

Grants Management Balanced Scorecard Survey: Internal Customers

[OPDIV] is conducting this survey to assess the overall performance of our grants management function. We need your input to help me this assessment. Note that the survey will not be used for individual employee performance evaluations.

Please answer this survey based on the performance of your Grants Management Office during the past 12 months. If you wish to comment on any aspect of the grants function or to qualify your answer to any question, please use the Comments section at the end of the survey.

If you have questions about the survey or need technical assistance, please contact [Name] on [Telephone] or [e-mail].

Your cooperation is appreciated.

Insert OPDIV
Logo Here



OVERALL

Q-1 To what extent do you agree or disagree that the overall performance of your servicing Grants Management Office is excellent?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree

POLICIES AND PROCEDURES

Q-2 To what extent do you agree or disagree with the following statements regarding policies and procedures of your Grants Management Office?

Select **one** answer for each statement.

Policies/Procedures Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
My Grants Management Office requests my participation during the grants policy development process	1	2	3	4	5
My Grants Management Office ensures I have ready access to the grants policies and procedures I need to do my job	1	2	3	4	5

PLANNING

For grant programs to be administered effectively, annual plans are developed. These plans should identify the grant events planned for the year and a schedule for completing these events.

Q-3 To what extent do you agree or disagree that your Grants Management Office performs the following planning activities well?

Select **one** answer for each statement.

Planning Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
My Grants Management Office develops a planned schedule of grant events	1	2	3	4	5
My Grants Management Office works in partnership with me in the development and documentation of an annual plan	1	2	3	4	5
My Grants Management Office ensure that annual plans are developed early enough in the grants cycle to influence the scheduling of grants events	1	2	3	4	5
My Grants Management Office tracks activities against the annual plan to ensure successful implementation	1	2	3	4	5
My Grants Management Office consistently reviews funding opportunity announcements (program announcements and Requests for Applications) for adequacy and compliance with policies and procedures	1	2	3	4	5

PRE-AWARD

Q-4 To what extent do you agree or disagree that your Grants Management Office performs the following pre-award activities well?

Select **one** answer for each statement.

Pre-Award Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
My Grants Management Office reviews grant applications for completeness and compliance	1	2	3	4	5
My Grants Management Office adds value to the objective review process	1	2	3	4	5
My Grants Management Office provides pre-award business management technical assistance to applicants	1	2	3	4	5
My Grants Management Office posts current and complete on-line application information	1	2	3	4	5
My Grants Management Office provides me with useful and accurate advice, assistance, and interpretation related to pre-award grants management policies and procedures	1	2	3	4	5

AWARD

Q-5 To what extent do you agree or disagree that your Grants Management Office performs the following award activities well?

Select **one** answer for each statement.

Award Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Reviews grant application budgets and negotiates needed changes	1	2	3	4	5
Prepares a complete and accurate award notice that includes special terms and conditions needed to fully define the agreement and protect the government's interest	1	2	3	4	5
Collaborates with the Program Office during the award phase so that program requirements are fully reflected in the award	1	2	3	4	5
Awards grants in a timely manner	1	2	3	4	5

POST-AWARD

Q-6 To what extent do you agree or disagree that your Grants Management Office performs the following post-award activities well?

Select **one** answer for each statement.

Post-Award Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
Forwards required grantee reports to the Program Office	1	2	3	4	5
Seeks advice and input from the Program Office on grantee requests for prior approval and other inquiries regarding business management matters	1	2	3	4	5
Keeps the Program Office informed of potential business management or financial problems with grantees	1	2	3	4	5
Takes necessary follow-up actions to address grantee business management or financial problems or issues	1	2	3	4	5
Provides grant recipients with technical assistance on grants management policies, procedures, or requirements related to post-award administration	1	2	3	4	5
Provides me with useful and accurate advice, assistance, and interpretation related to post-award grants management policies and procedures	1	2	3	4	5

INFORMATION TECHNOLOGY

The Grants Management Office uses information technology to manage information and increase the quality and efficiency of activities undertaken with Program Offices and others.

Q-7 To what extent do you agree or disagree with the following statements regarding your Grants Management Office's use of information technology?

Select **one** answer for each statement.

Information Technology Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
My Grants Management Office uses its available technology to operate the grants process in an efficient and effective manner	1	2	3	4	5
My Grants Management Office provides me with useful, accurate, and timely reports (or direct access to a database) on my grants and grant recipients	1	2	3	4	5

BUSINESS PROCESS IMPROVEMENT

Q-8 To what extent do you agree or disagree that your Grants Management Office is committed to continuously improving the quality, timeliness, and efficiency of its business processes with Program Offices and other partners?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree

STAFF CAPABILITIES

Q-9 To what extent do you agree or disagree with the following statements regarding your Grants Management Office's staff capabilities?

Select **one** answer for each statement.

Staff Capabilities Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
The staff members in my Grants Management Office understand and support the goals of my grant program	1	2	3	4	5
The staff members in my Grants Management Office are expert in grants management policy and procedural requirements and their interpretation	1	2	3	4	5
The staff members in my Grants Management Office have the knowledge, skills, and abilities to get the job done	1	2	3	4	5

CUSTOMER SERVICE/COOPERATION

Q-10 To what extent do you agree or disagree with the following statements regarding the activities you engage in with your Grants Management Office?

Select **one** answer for each statement.

Customer Service Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
The staff members in my Grants Management Office make me feel like an important partner	1	2	3	4	5
The staff members in my Grants Management Office get right back to me when I call or e-mail with questions	1	2	3	4	5
The staff members in my Grants Management Office try to be proactive and anticipate what I need	1	2	3	4	5
The staff members in my Grants Management Office provide consistent guidance, regardless of whom I talk to	1	2	3	4	5
The staff members in my Grants Management Office treat me courteously and professionally	1	2	3	4	5
The staff members in my Grants Management Office help me define grant-related issues and options for responding	1	2	3	4	5
The staff members in my Grants Management Office contribute positively to the overall success of my grant program	1	2	3	4	5

Q-11 To what extent do you agree or disagree with the following statements regarding your Grants Management Office's relationship with your Program Office?

Select **one** answer for each statement.

Cooperation Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree
The relationship between my Grants Management Office and my Program Office is characterized by a clear definition of the roles, responsibilities, and authorities of each office	1	2	3	4	5
The relationship between my Grants Management Office and my Program Office is characterized by open, effective communication between the two offices	1	2	3	4	5
The relationship between my Grants Management Office and my Program Office is characterized by mutual respect for the needs of each office	1	2	3	4	5

PROGRAM OFFICIAL TRAINING

Program Official training may be formal and/or informal.

Please answer these questions based only on the formal training (courses, seminars, workshops, etc.) you received.

Q-12 To what extent do you agree or disagree that your Grants Management Office effectively promotes formal grants management training for Program Officials/Project Officers?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometime Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree

Q-13 Have you received formal training on grants management?

Select **one** answer.

- 1 Yes
- 2 No (Skip to Q-17)

Q-14 Was the training provided by HHS (or on behalf of HHS) or by another source?

Select **one** answer.

- 1 HHS
- 2 Other source
- 3 Both HHS and other source
- 4 Do not know

Q-15 Was the training provided within one year after you were assigned Program Official/Project Officer responsibilities?

Select **one** answer.

- 1 Yes
- 2 No
- 3 Do not know

Q-16 To what extent do you agree or disagree that the training you received helped you carry out your Program Official/Project Officer responsibilities?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree

PRIORITIES FOR IMPROVEMENT

Q-17 If you could make changes in Grants Management, which of the following would you select?

Select **only three (3)** answers.

- 1 More Grants Management Staff
- 2 Improved Use of Technology
- 3 More Efficient Work Processes
- 4 Improved Cooperation with Grants Management Office
- 5 Simplified Policies and Procedures
- 6 More Training and Development for Grants Staff
- 7 More Training for Program Officials/Project Officers
- 8 Other (please specify) _____

BACKGROUND

Q-18 How long have you worked with your current Grants Management Office?

Select **one** answer.

- 1 Less than 1 year
- 2 1 to 5 years
- 3 More than 5 years

Q-19 How frequently, on average, have you had contact with your Grants Management Office during the past 12 months?

Select **one** answer.

- 1 Once a Year
- 2 Once a Quarter
- 3 Once a Month
- 4 Once a Week
- 5 Once a Day

COMMENTS

Please use the space below to suggest specific changes that would improve the grants management function, or to elaborate on your answers to the previous questions.

Grants Management Balanced Scorecard Survey: Grant Applicants/Recipients

[OPDIV] is conducting this survey to assess the overall performance of our grants management function under the Balanced Scorecard approach. We need your input to assess how we are doing in providing grants management services to applicants and recipients.

This survey is being sent to all [OPDIV] recipient organizations. Survey participants include Grant Administrators/Business Officers and Project Directors/Principal Investigators. You were selected to participate because of your involvement in the research, program management, business management, and/or administration of one or more grant projects funded by [OPDIV].

Please answer this survey based on your experience with the performance of the Grants Management Offices and Program Offices of the [OPDIV] during the past 12 months.

If you have done business with several grants offices during that time, please answer based on your experiences with the office(s) with which you interact most frequently. If you wish, you may use the Comments section to further elaborate on any answer. Answer the questions only in the context of discretionary grants and cooperative agreements.

Your response will have no impact on eligibility for, or receipt of, future services or funding.

If you have questions about the survey or need technical assistance, please contact [Name] on [Telephone] or [e-mail].

Your cooperation is appreciated.

According to the Paperwork Reduction Act of 1995, a Federal agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this voluntary survey is: OMB No. 0990-0220/Expiration Date: [01/31/2007]. Public reporting burden for this collection of information is estimated to vary from 10 to 20 minutes with an average of 15 minutes per completed survey, including time for reviewing instructions, gathering and maintaining necessary data, and completing and reviewing the collection of information.

Insert OPDIV
Logo Here



The Grants Management Office and the Program Office perform grants administration functions. The Grants Management Office negotiates and awards grants, provides technical assistance as it pertains to business management, monitors grant business performance following award, and closes out grants upon completion or termination.

Program Offices ensure that grants meet programmatic objectives. The administrative functions performed by the Program Office include the announcement of grant programs, the provision of programmatic technical assistance, and the post-award programmatic monitoring of the grant.

OVERALL

If you have worked with multiple Program offices in the OPDIV in the past 12 months, evaluate the one with which you have had the most contact.

Q-1 To what extent are you satisfied or dissatisfied with the overall performance of the **Grants Management Office**?

Select **one** answer.

- 1 Very Satisfied
- 2 Satisfied
- 3 Somewhat Satisfied and Somewhat Dissatisfied
- 4 Dissatisfied
- 5 Very Dissatisfied
- 6 Not Applicable

Q-2 To what extent are you satisfied or dissatisfied with the overall performance of the **Program Office**?

Select **one** answer.

- 1 Very Satisfied
- 2 Satisfied
- 3 Somewhat Satisfied and Somewhat Dissatisfied
- 4 Dissatisfied
- 5 Very Dissatisfied
- 6 Not Applicable

CUSTOMER SERVICE/COOPERATION

Q-3 To what extent do you agree or disagree that the **Grants Management Office** provides customer service/cooperation in the following areas?

Select **one** answer for each area.

Grants Management Office	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
Responds promptly to inquiries (e.g., via telephone, e-mail)	1	2	3	4	5	6
Provides consistent and accurate advice and assistance	1	2	3	4	5	6
Treats you courteously and professionally	1	2	3	4	5	6

Q-4 To what extent do you agree or disagree that the **Program Office** provides customer service/cooperation in the following areas?

Select **one** answer for each area.

Program Office	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
Responds promptly to inquiries (e.g., via telephone, e-mail)	1	2	3	4	5	6
Provides consistent and accurate advice and assistance	1	2	3	4	5	6
Treats you courteously and professionally	1	2	3	4	5	6

POLICIES AND PROCEDURES

Q-5 To what extent do you agree or disagree with the following statements regarding the **Grants Management Office's** role in grants management policies and procedures?

Select **one** answer for each policies and procedures statement.

Policies and Procedures Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
Grants Management policies and procedures are made readily available to grant applicants and recipients	1	2	3	4	5	6
Grants management staff members assist grant applicants and recipients in the interpretation of grants management policies and procedures	1	2	3	4	5	6
The grants management office uses appropriate tools (e.g., automation, internet) to make the grants process easier	1	2	3	4	5	6

Pre-Award Phase

The **Program Office** develops grant announcements that describe program requirements (i.e., the purpose of the program, eligibility requirements, review criteria, and the instructions needed to complete the application).

Q-6 To what extent do you agree or disagree that the **Program Office** performs the following aspects of the grant announcement process well?

Select **one** answer for each aspect of grant announcement.

Grant Announcement Aspect	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
Grant announcements clearly describe program requirements	1	2	3	4	5	6
Applicants are provided with sufficient time to complete applications	1	2	3	4	5	6

The **Grants Management Office** prepares all information and materials (paper or electronic) applicants need to apply for a grant. The application process may use technology (e.g., on-line announcements and application materials, electronic forms, e-mail) in the application process.

Q-7 To what extent do you agree or disagree that the **Grants Management Office** ensures that the application process employs technology and other means to make the application process easy and efficient?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree
- 6 Not Applicable

Q-8 To what extent do you agree or disagree with the following statements about the OPDIV's performance in the application evaluation feedback process?

Select **one** answer for each statement.

Application Evaluation Feedback Process Statement	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
The OPDIV provides timely feedback to grant applicants on the results of the application evaluation process	1	2	3	4	5	6
The OPDIV provides clear rationale for non-selection to applicants not selected for an award (Note: If your applications have always been funded, please select Not Applicable)	1	2	3	4	5	6

When changes to new and/or continuation applications are required, (e.g., to reflect review committee decisions or to comply with cost principles), **Grants Management Office** staff communicate with the applicant before making the change.

Q-9 To what extent do you agree or disagree that the **Grants Management Office** explains to applicants any changes and invites their input? (Note: If you have not had any changes, please select Not Applicable)

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree
- 6 Not Applicable

AWARD PHASE

Q-10 To what extent do you agree or disagree with the following statements about the performance of the **Grants Management Office** in the award function?

Select **one** answer for each award function.

Award Function	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
The Grants Management Office issues award documentation with the information necessary for managing the grant, including clear terms and conditions	1	2	3	4	5	6
The Grants Management Office issues awards in a timely manner (in accordance with the timeframes, if any, specified in the program announcement, and in advance of the grant project start date)	1	2	3	4	5	6

Q-11 To what extent do you agree or disagree that the **Grants Management Office** ensures that the grant award process is fair and equitable?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree
- 6 Not Applicable

Q-12 To what extent do you agree or disagree that the **Program Office** ensures that the grant award process is fair and equitable?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree
- 6 Not Applicable

REPORTING/POST-AWARD ADMINISTRATION

The **Grants Management Office** has the responsibility of receiving and reviewing financial status reports (FSRs), and other required financial reports.

Q-13 To what extent do you agree or disagree that the **Grants Management Office** notifies grantees if financial reports are late, if problems or issues are detected, and if corrective actions are needed?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree
- 6 Not Applicable

Progress Reports are tracked and reviewed to identify existing or potential problems or issues.

Q-14 To what extent do you agree or disagree that the **Grants Management Office** notifies grantees if progress reports are late, if problems or issues are detected, and if corrective actions are needed?

Select **one** answer.

- 1 Strongly Agree
- 2 Agree
- 3 Sometimes Agree, Sometimes Disagree
- 4 Disagree
- 5 Strongly Disagree
- 6 Not Applicable

Q-15 To what extent do you agree or disagree that the **Grants Management Office** performs the following aspects of post-award administration well?

Select **one** answer for each aspect.

Post-Award Administration Aspect	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
Responds to requests for prior approval in a timely manner, providing needed information	1	2	3	4	5	6
Closes out grants in a timely manner	1	2	3	4	5	6

TECHNICAL ASSISTANCE

Q-16 To what extent do you agree or disagree with the following statements regarding the **Grants Management Office's** technical assistance?

Select **one** answer for each statement.

Grants Management Office	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
The Grants Management Office provides clear, accurate, and helpful technical assistance	1	2	3	4	5	6
The Grants Management Office provides timely technical assistance	1	2	3	4	5	6

Q-17 To what extent do you agree or disagree with the following statements regarding the **Program Office's** technical assistance?

Select **one** answer for each statement.

Program Office	Strongly Agree	Agree	Sometimes Agree, Sometimes Disagree	Disagree	Strongly Disagree	Not Applicable
The Program Office provides clear, accurate, and helpful technical assistance	1	2	3	4	5	6
The Program Office provides timely technical assistance	1	2	3	4	5	6

PRIORITIES FOR IMPROVEMENT

Q-18 If you could make improvements in the grants management process, which of the following would you select?

Select **only three (3)** answers.

- 1 Improved Use of Technology
- 2 Improved Communications with Grants Management Office
- 3 Improved Communications with Program Office
- 4 Better Trained Grants Management Staff
- 5 Better Trained Program Staff
- 6 More Responsive Grants Management Staff
- 7 More Responsive Program Staff
- 8 More Reasonable Timeframes
- 9 Simpler Processes
- 10 Increased Clarity of Instruction and Guidance
- 11 Fairer Processes for Awarding Grants
- 12 Other (please specify) _____

BACKGROUND

Q-19 Which of the following best describes your organization?

Select **one** answer.

- 1 State government
- 2 Local government (city, town, county)
- 3 Indian tribal government
- 4 Educational institution
- 5 Hospital
- 6 Non-profit organization
- 7 Large for-profit organization
- 8 Small for-profit organization (small business)

Q-20 Which of the following titles best represents your current position?

Select **one** answer.

- 1 Grants Administrator/Business Officer
- 2 Program Director/Principal Investigator

Q-21 Approximately how many competing applications have you or your organization submitted for funding by the OPDIV over the past 3 calendar years.

Select **one** answer.

- 1 One
- 2 Two
- 3 Three
- 4 Four
- 5 Five
- 6 More than five
- 7 None (Skip to Q-23)

Q-22 Of the competing applications your or your organization submitted to the OPDIV over the past 3 calendar years, how many were actually funded?

Select **one** answer.

- 1 All
- 2 Some
- 3 None

Q-23 Approximately how many applications/progress reports for non-competing continuations have your or your organization submitted to the OPDIV over the past 3 calendar years?

Select **one** answer.

- 1 One
- 2 Two
- 3 Three
- 4 Four
- 5 Five
- 6 More than five
- 7 None

COMMENTS

Please use the space below to suggest specific changes that would improve the grants process, or to elaborate on your answers to the previous questions.

Grants Management Balanced Scorecard Survey: Managers

Purpose of the Self-Assessment Review

The purpose of this review is to collect data to help HHS Grants Management Offices evaluate their performance using a balanced scorecard approach. It is intended for use in conjunction with the Grants Management Office Survey and the Grants Program Officials/Project Officers Survey. This review requires compilation of data from files and information systems; it also asks for general information on systems and practices that have been established in the Grants Management Office.

Instructions

The Self-Assessment Review is intended to be completed by Grants Management Offices that award discretionary grants including cooperative agreements. While some Grants Management Offices may award both mandatory and discretionary grants, the focus of this assessment is directed only at the award and administration of discretionary grants. If a Grants Management Office awarding both types of grants is unable to precisely identify the resources devoted to its discretionary grants as distinct from its mandatory grants, the office should estimate the amount of resources devoted to its discretionary grants in preparing responses as necessary.

- The Head of the Grants Management Office should prepare the required information. If designated staff help collect the required information, the Head of the Grants Management Office should review and sign it to ensure its accuracy.
- The information in the Self-Assessment Review, taken in conjunction with the results of the Grants Management Staff Survey, Grants Program Officials/Project Officers Survey, and the Grant Recipients Survey will help the Grants Management Office understand its performance and identify areas where improvements are needed. Please retain a copy of the completed Self-Assessment Review.
- Collect information for the Self-Assessment Review from existing records. If you do not have the data to respond to the questions, please provide estimates.

OVERALL

Q-1 How satisfied are you with the overall performance of your office?

Select **one** answer.

- 1 Very Satisfied
- 2 Satisfied
- 3 Neither Satisfied nor Dissatisfied
- 4 Dissatisfied
- 5 Very Dissatisfied

GRANT WORKLOAD

The data requested below will help determine the grant workload for your office. Please provide the following information.

Q-2 To what extent has the total number of discretionary grant awards and dollar values changed over the last five fiscal years?

Select **one** answer for each category.

Award Category	Lower	Unchanged	Higher	Not Applicable
Number of new awards	1	2	3	4
Number of competing continuations and competing supplements	1	2	3	4
Number of non-competing continuations and non-competing supplements	1	2	3	4
Total number of active grant projects and cooperative agreements	1	2	3	4
Total dollar value of grant awards	1	2	3	4
Total number of grants which have been expired for more than six months and were not closed-out at the end of the last fiscal year	1	2	3	4

The data requested below will help measure the effectiveness of grants planning activities. Please record the following information.

Q-3 What percentage of total grant money is awarded in the Fourth Quarter?

Select **one** answer.

- 1 Less than 10%
- 2 10–20%
- 3 21–30%
- 4 31–40%
- 5 41–50%
- 6 More than 50%

The data requested below will help measure the effectiveness of competitive procedures for awarding grants. Please record the following information in the context of discretionary grants and cooperative agreements for the last completed fiscal year

Q-4 How many of the following actions were taken in the last fiscal year?

Select **one** answer for each type of action.

Type of Action	0–5%	6–10%	11–15%	16–20%	More than 20%
Grants awarded out of objective review rank order (documentation on file)	1	2	3	4	5
Single-source awards (other than hard earmarks)	1	2	3	4	5

COMPLIANCE

The answers to the questions below will help measure whether processes are in place to ensure compliance with grants management policies and procedures.

Q-5 Has an internal compliance review of grants management activities been conducted in your office within the last 5 years (e.g., a compliance review conducted by or on behalf of HHS, your OPDIV, or your own office)?

Select **one** answer.

- 1 Yes (Continue to Q-6)
- 2 No (Skip to Q-9)

Q-6 Was it a formal review (conducted by parties external to your office) or an informal review (conducted by your office)?

Select **one** answer.

- 1 Formal
- 2 Informal

Q-7 Were any significant weaknesses identified?

Select **one** answer.

- 1 Yes
- 2 No

Q-8 If significant weaknesses were identified, have they all been corrected?

Select **one** answer.

- 1 Yes
- 2 No

Q-9 Do you update the policy and procedural documentation used in your office to reflect all changes in current and applicable statutes, regulations and HHS grants management policies within 60 - 90 days of announced change?

Select **one** answer.

- 1 Yes
- 2 No

Q-10 Has your OPDIV put a plan in place to update your policy and procedural guides to reflect HHS Grants Policy Directives (GPDs)?

Select **one** answer.

- 1 Yes
- 2 No

Q-11 Has your OPDIV put a plan in place to update your policy and procedural guides to reflect the HHS Awarding Agency Grants Administration Manual?

Select **one** answer.

- 1 Yes
- 2 No

Q-12 How many formally approved deviations from HHS grants policy did you have during the last completed fiscal year?

Select **one** answer.

- 1 None
- 2 1–3
- 3 4–6
- 4 7–9
- 5 More than 9

The data requested below will help determine if your office complies with requirements for documentation for discretionary grant programs. Please record the following information in the context of discretionary grants.

Q-13 Are the following files in your office current and complete?

Select **one** answer for each type of file.

File	Yes	No
Grant files	1	2
Institutional files	1	2

MONITORING

The data requested below will help measure the effectiveness of processes for monitoring grantee awards.

Q-14 What percentage of required reports were submitted late or not submitted in the last fiscal year?

Select **one** answer.

Report	0–10%	11–20%	21–30%	31–40%	More than 40%
Financial reports	1	2	3	4	5
Performance reports	1	2	3	4	5
Other reports required under terms and conditions	1	2	3	4	5

Q-15 Do you analyze delinquent report patterns to identify possible systemic causes for delinquency?

Select **one** answer.

- 1 Yes
- 2 No

Q-16 Do you take follow up actions when grantees submit late reports or do not submit reports?

Select **one** answer.

- 1 Yes
- 2 No

The answers to the questions below will help evaluate whether your office has established processes for monitoring grantee use of funds. Please answer the questions below.

Q-17 Does your OPDIV or office have an effective policy or procedure in place concerning the review of unobligated balances and possible actions in response to excessive unobligated balances?

Select **one** answer.

- 1 Yes (Continue to Q-18)
- 2 No (Skip to Q-19)

Q-18 Is your staff using this policy or procedure to monitor grantee unobligated balances and take appropriate follow-up actions when issues are identified?

Select **one** answer.

- 1 Yes
- 2 No

Q-19 Does your OPDIV or office have an effective policy or procedure in place concerning the review of drawdowns and possible actions in response to excessive drawdowns?

Select **one** answer.

- 1 Yes (Continue to Q-20)
- 2 No (Skip to Q-21)

Q-20 Is your staff using this policy or procedure to monitor excessive drawdowns and take appropriate follow-up actions when issues are identified?

Select **one** answer.

- 1 Yes
- 2 No

Q-21 Does your OPDIV or office have an effective policy or procedure in place concerning the review and appropriate disposition of program income and accrued interest income?

Select **one** answer.

- 1 Yes (Continue to Q-22)
- 2 No (Skip to Q-23)

Q-22 Is your staff using this policy or procedure to monitor program and accrued interest income and take appropriate follow-up actions when issues are identified?

Select **one** answer.

- 1 Yes
- 2 No

AUDITS/DEBT COLLECTION/ALERT LIST

The answers to the questions below will help determine the extent to which audits are being used as a means of assessing recipients' business management capabilities and otherwise protecting the interests of the Government.

Q-23 Does your staff determine the availability of audit reports/review relevant findings prior to making awards to new recipients?

Select **one** answer.

- 1 Always
- 2 Sometimes
- 3 Never

Q-24 Does your staff ensure that the latest required audit has been submitted prior to making competing or non-competing awards?

Select **one** answer.

- 1 Always
- 2 Sometimes
- 3 Never

Q-25 Does another OPDIV office/staff have primary responsibility for audit resolution?

Select **one** answer.

- 1 Yes
- 2 No

Q-26 Do you or your staff participate in audit resolution for issues relating to your grant(s)?

Select **one** answer for each issue.

- 1 Always (Continue to Q-27)
- 2 Sometimes (Continue to Q-27)
- 3 Never (Skip to Q-28)

Q-27 If you do participate in audit resolution, indicate which of the following issues apply.

Select **all** that apply.

- 1 Your grant(s) only
- 2 Cross-cutting (affects more than your grant(s))

Q-28 Which of the following offices do you or your staff routinely deal with on audit matters?

Select **one** answer.

- 1 OIG
- 2 OGMP/ASAM
- 3 OPDIV Audit Liaison
- 4 Other
- 5 Not Applicable

Q-29 Do you or your staff coordinate with the cognizant financial management office concerning debt collection?

Select **one** answer.

- 1 Always
- 2 Sometimes
- 3 Never

Q-30 Does another Agency office/staff have primary responsibility for debt collection?

Select **one** answer.

- 1 Yes
- 2 No

The answers to the questions below will help evaluate whether your office uses the HHS Alert List effectively. Please answer the following questions.

Q-31 Does your staff routinely consult the Alert List prior to making an award?

Select **one** answer.

- 1 Yes
- 2 No

Q-32 How many grantees did your office recommend for placement on the Alert List during the last completed fiscal year?

Select **one** answer.

- 1 None (Skip to Q-36)
- 2 1–3
- 3 4–6
- 4 7–9
- 5 More than 9

Q-33 Of the grantees your office recommended for placement on the Alert List during the last completed fiscal year, how many now have a corrective action plan in place?

Select **one** answer.

- 1 None
- 2 1–3
- 3 4–6
- 4 7–9
- 5 More than 9
- 6 Not Applicable

Q-34 Of the grantees that were on the Alert List, how many were removed during the last fiscal year?

Select **one** answer.

- 1 None
- 2 1–3
- 3 4–6
- 4 7–9
- 5 More than 9
- 6 Not Applicable

Q-35 Of the grantees your office recommended for placement on the Alert List, how many remained on the list for more than 2 years?

Select **one** answer

- 1 None
- 2 1–3
- 3 4–6
- 4 7–9
- 5 More than 9
- 6 Not Applicable

EXTERNAL COMMUNICATIONS

Q-36 Are there additional mechanisms (other than the *Federal Register* and web page) used to communicate with applicants and grantees on grant matters?

Select **one** answer.

- 1 Yes (Continue to Q-37)
- 2 No (Skip to Q-41)

Q-37 If you use other methods please describe them in the space below.

Q-38 How many technical assistance workshops and seminars were conducted by your office in the last completed fiscal year (includes those conducted on your behalf by contractors)?

Select **one** answer.

- 1 None
- 2 1–3
- 3 5–7
- 4 7–9
- 5 More than 9

Please record information on on-site technical assistance visits made by the Grants Management Office in the last completed fiscal year.

Q-39 Total number of grantees requesting on-site visits

Select **one** answer.

- 1 None
- 2 1–5
- 3 6–10
- 4 11–15
- 5 16–20
- 6 More than 20

Q-40 Total number of grantees that were visited

Select **one** answer.

- 1 None
- 2 1–5
- 3 6–10
- 4 11–15
- 5 16–20
- 6 More than 20

INFORMATION TECHNOLOGY

The data requested below will help evaluate whether your staff has adequate information technology resources.

Q-41 To what extent is additional access needed for the following types of technology resources?

*Select **one** answer for each type of resource.*

Type of Resource	None	Some	Substantially More	Not Applicable
Personal computer	1	2	3	4
Lap-top computer	1	2	3	4
Printers	1	2	3	4
Faxes	1	2	3	4
Internet access	1	2	3	4
Spreadsheet software	1	2	3	4
Presentation graphics software	1	2	3	4
Database software	1	2	3	4
Project management software	1	2	3	4
Windows operating systems	1	2	3	4
E-mail	1	2	3	4
Voice-mail	1	2	3	4
Teleconferencing	1	2	3	4
Other (please specify):_____		2	3	

GRANTS MANAGEMENT OFFICE PROFILE

The data requested below is used to determine the staff resources in your office available for grant related activities.

Q-42 To what extent has the number of employees in your office, including managers and clerical staff, changed over the last five fiscal years?

*Select **one** answer.*

- 1 Lower
- 2 Unchanged
- 3 Higher

Q-43 To what extent has the average grade of employees in your office, including managers and clerical staff changed over the last five fiscal years?

Select **one** answer.

- 1 Lower
- 2 Unchanged
- 3 Higher

Q-44 What was the average number of full-time employees (including clerical staff and non-supervisory grants management specialists) per first-line supervisor in your office as of the end of the last completed fiscal year?

Select **one** answer.

- 1 Fewer than 7 Employees
- 2 7–10 Employees
- 3 11–14 Employees
- 4 15–18 Employees
- 5 More than 18 Employees

Q-45 How many permanent employees (FTEs) were on board in your Grants Management Office at the end of the last completed fiscal year? (Note: Includes supervisory Grants Management Specialists, Grants Management Officers and higher-level managers within the grants office.)

Select **one** answer.

- 1 Fewer than 5 Employees
- 2 5–10 Employees
- 3 11–15 Employees
- 4 16–20 Employees
- 5 More than 20 Employees

Q-46 Were the FTEs you identified above supplemented by technical/clerical staff during the last completed fiscal year?

Select **one** answer.

- 1 Yes
- 2 No

Q-47 Were the FTEs you identified above supplemented by resources such as interns or students during the last completed fiscal year?

Select **one** answer.

- 1 Yes
- 2 No

Q-48 Were the FTEs you identified above supplemented by temporary employees during the last completed fiscal year?

Select **one** answer.

- 1 Yes
- 2 No

Q-49 Were the FTEs you identified above supplemented by contractors during the last completed fiscal year?

Select **one** answer.

- 1 Yes
- 2 No

Q-50 Is the use of these supplemental resources essential to completing your office's discretionary workload?

Select **one** answer.

- 1 Yes
- 2 No
- 3 Not Applicable

Note: For the personnel questions below, provide the information requested only for employees spending the preponderance of their time working on discretionary grants. If you have an employee who works on both discretionary and mandatory grants, you do not need to segment this employee by his/her discretionary and mandatory work functions. Please count this person as a discretionary employee.

The data requested below will help evaluate the level of attrition for your office.

Q-51 How many permanent employees left the office during the last fiscal year because of the following reasons?

Select **one** answer for each reason.

Reason	1–3	4–6	7–9	More than 9
Retirement	1	2	3	4
Transfer	1	2	3	4
Other reason	1	2	3	4

WORKFORCE DEVELOPMENT

The data requested below will help evaluate the success of your office in developing and managing the grants management staff.

Q-52 On average, how much money per person was budgeted for training in the last completed fiscal year?

Select **one** answer.

- 1 \$0-\$500
- 2 \$501-\$1000
- 3 \$1001-\$1500
- 4 \$1501-\$2,000
- 5 \$2,001-\$2,500
- 6 More than \$2,500

Q-53 What percentage of your training budget was used in the last fiscal year?

Select **one** answer.

- 1 0–25%
- 2 26–50%
- 3 51–75%
- 4 76–100%

Q-54 What percentage of your staff participated in the following types of training in the last fiscal year?
(Note: include training not supported by your budget)

Select **one** answer for each type of training.

Type of Training	0–25%	26–50%	51–75%	76–100%	Not Applicable
Grants management training: HHS grants management curriculum	1	2	3	4	5
Other classroom training provided by HHS/OPDIV	1	2	3	4	5
Training provided by outside training organization other than through HHS training program	1	2	3	4	5
Training provided by educational institution	1	2	3	4	5
Alternative training methods (to include computer-based instruction, conferences, distance learning, or developmental assignment)	1	2	3	4	5

Q-55 How many of the following types of training events were provided to applicable Grants Management staff in the last completed fiscal year?

Select **one** answer for each type of training event.

Type of Training Event	1–2	3–5	5–7	More than 9	Not Applicable
Grants management training: HHS Grants Management Curriculum	1	2	3	4	5
Other classroom training provided by HHS/OPDIV	1	2	3	4	5
Training provided by outside training organization	1	2	3	4	5
Training provided by educational institution	1	2	3	4	5
Alternative training methods (to include computer-based instruction, conference, distance learning, or development assignment)	1	2	3	4	5

Q-56 What percentage of the staff members in your office have completed the HHS grants management curriculum recommended for certification at their grade level?

Select **one** answer

- 1 0–25%
- 2 26–50%
- 3 51–75%
- 4 76–100%

COMMENTS

Please use the space below to suggest specific changes that would improve the grants process, or to elaborate on your answers to any of the previous questions.

BACKGROUND

Office Name: _____

Your Name and Title: _____

**GRANTS MANAGEMENT OFFICE
COMMUNICATION 1 (ALERT MESSAGE)**

Subject: Grants Management Staff Survey

Dear [Full Name],

The [Division/Office Name], [OPDIV], Department of Health and Human Services (DHHS), has adopted the Balanced Scorecard approach to assess the performance of the grants management function and to improve our operations. The Balanced Scorecard approach looks at performance from the perspective of three main groups of stakeholders: Grants Management Staff, Program Officials/Project Officers, and grant applicants and recipients. These perspectives provide a comprehensive and balanced picture of past performance and potential for future performance.

As part of this measurement and improvement effort, we are conducting a survey of Grants Management Staff.

In a few days, you will receive another e-mail detailing the procedure for completing the survey on the Internet. Please complete and submit the survey promptly. Please be assured that your response will be kept strictly confidential and only aggregate data will be reported.

Thank you for your cooperation.

[Signatory/Title]

**GRANTS MANAGEMENT OFFICE
COMMUNICATION 2**

Subject: Grants Management Staff Survey

Dear [Full Name],

[OPDIV] has adopted a new performance measurement and improvement system, the Balanced Scorecard, to assess its grants management function and to make improvements, where appropriate. The Balanced Scorecard approach looks at performance from the perspective of three main groups of stakeholders: Grants Management Staff, Program Officials/Project Officers, and grant applicants and recipients.

As part of this measurement and improvement effort, we are conducting a survey of all Grants Management Staff. Soliciting the opinions of grants staff is essential for evaluating and improving the grants management function.

In order that the results be truly representative, it is important that each person complete a survey. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the [submit](#) button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address]

Thank you,

[Signatory/Title]

**GRANTS MANAGEMENT OFFICE
COMMUNICATION 3**

Subject: Grants Management Staff Survey

Dear [Full Name],

Recently we asked that you complete a survey to help us evaluate and improve the performance of our grants management function. As of today, we have not received your response.

It is important that you participate in the survey for the results to be truly representative. Please respond promptly. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

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Thank you,

[Signatory/Title]

**GRANTS MANAGEMENT OFFICE
COMMUNICATION 4**

Subject: Grants Management Staff Survey

Dear [Full Name],

We are conducting an important survey of all Grants Management Staff to gather your points of view on various aspects of our grants management function. You have been asked to participate in this survey because you are an important stakeholder in the grants process.

Please take time now to complete the survey. It is easy to access in the Internet by using the link below, and takes only about 15 minutes to complete.

In order that the results be truly representative, it is important that each person complete a survey.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

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Thank you,

[Signatory/Title]

**GRANTS MANAGEMENT OFFICE
COMMUNICATION 5**

Subject: Grants Management Staff Survey

Dear [Full Name],

By now you should have received several messages asking you to complete a survey to help us evaluate and improve the performance of our grants management function. As of today, we have not received your completed survey.

Your input is important! It will take only about 15 minutes of your time to complete.

Please respond promptly. Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

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We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address]

Thank you,

[Signatory/Title]

**GRANTS MANAGEMENT INTERNAL CUSTOMERS
COMMUNICATION 1 (ALERT MESSAGE)**

Subject: Grants Management Program Officials Survey

Dear [Full Name],

The [Division/Office Name], [OPDIV], Department of Health and Human Services (DHHS), has adopted the Balanced Scorecard approach to assess the performance of the grants management function and to improve our operations. The Balanced Scorecard approach looks at performance from the perspective of three main groups of stakeholders: Program Officials/Project Officers, Grants Management Staff, and grant applicants and recipients. These perspectives provide a comprehensive and balanced picture of past performance and potential for future performance.

As part of this measurement and improvement effort, we are conducting a survey of Grants Program Officials and Project Officers.

In a few days, you will receive another e-mail detailing the procedure for completing the survey on the Internet. Please complete and submit the survey promptly. Please be assured that your response will be kept strictly confidential and only aggregate data will be reported.

Thank you for your cooperation.

[Signatory/Title]

GRANTS MANAGEMENT INTERNAL CUSTOMERS COMMUNICATION 2

Subject: Grants Management Program Officials/Project Officers Survey

Dear [Full Name],

[OPDIV] has adopted a performance measurement and improvement system, the Balanced Scorecard, to assess its grants management function and to make improvements, where appropriate. The Balanced Scorecard approach looks at performance from the perspective of three main groups of stakeholders: Program Officials/Project Officers, Grants Management Staff, and grant applicants and recipients.

As part of this measurement and improvement effort, we are conducting a survey of Grants Management Program Officials and Project Officers. Soliciting the opinions of Program Officials and Project Officers is essential for evaluating and improving the grants management function.

In order that the results be truly representative, it is important that each program official/project officer complete a survey. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the [submit](#) button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address]

Thank you,

[Signatory/Title]

**GRANTS MANAGEMENT INTERNAL CUSTOMERS
COMMUNICATION 3**

Subject: Grants Management Program Officials/Project Officers Survey

Dear [Full Name],

Recently we asked that you complete a survey to help us evaluate and improve the performance of our grants management function. As of today, we have not received your response.

It is important that you participate in the survey for the results to be truly representative. Please respond promptly. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

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We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address]

Thank you,

[Signatory/Title]

GRANTS MANAGEMENT INTERNAL CUSTOMERS COMMUNICATION 4

Subject: Grants Management Program Officials/Project Officers Survey

Dear [Full Name],

We are conducting an important survey of Grants Management Program Officials and Project Officers to gather your point of view on various aspects of our grants management function. You have been asked to participate in this survey because you are an important stakeholder in the grants process.

Please take time now to complete the survey. It is easy to access on the Internet by using the link below, and takes only about 15 minutes to complete.

In order that the results be truly representative, it is important that each person complete a survey.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

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Thank you,

[Signatory/Title]

**GRANTS MANAGEMENT INTERNAL CUSTOMERS
COMMUNICATION 5**

Subject: Grants Management Program Officials/Project Officers Survey

Dear [Full Name],

By now you should have received several messages asking you to complete a survey to help us evaluate and improve the performance of our grants management function. As of today, we have not received your completed survey.

Your input is important! It will take only about 15 minutes of your time to complete.

Please respond promptly. Please be assured that your responses are kept strictly confidential and only aggregate data will be reported.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

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Thank you,

[Signatory/Title]

**GRANT RECIPIENTS
COMMUNICATION 1 (ALERT MESSAGE)**

Subject: [OPDIV] Grant Recipient Survey

Dear [Full Name],

The [Division/Office Name], [OPDIV], Department of Health and Human Services (DHHS), has adopted the Balanced Scorecard approach to assess the performance of the grants management function and to improve our operations. As part of this measurement and improvement effort, we are conducting a survey of our grant recipients. The survey will be used to evaluate the performance of the Grants Management Offices and Program Offices in providing grants management services to you.

In a few days, you will receive another e-mail detailing the procedure for completing the survey on the Internet. Please complete and submit the survey promptly. Please be assured that your response will be kept strictly confidential and only aggregate data will be reported.

Your response will have no impact on eligibility for receipt of future services or funding.

Thank you for your cooperation.

[Signatory/Title]

**GRANT RECIPIENTS
COMMUNICATION 2**

Subject: [OPDIV] Grant Recipient Survey

Dear [Full Name],

[OPDIV] has adopted a new performance measurement and improvement system, the Balanced Scorecard, to assess its grants management function and to make improvements, where appropriate.

This survey is being sent to all [OPDIV] recipient organizations. Survey participants include Grant Administrators/Business Officers and Project Directors/Principal Investigators. You were selected to participate because of your involvement in the research, program management, business management, and/or administration of one or more grant projects funded by [OPDIV].

The survey results will be used to evaluate the performance of the Grants Management Offices and Program Offices in providing grants management services to you.

In order that the results be truly representative, it is important that each survey is completed. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported. Your response will have no impact on eligibility for receipt of future services or funding.

You may participate in the survey on the Internet by clicking on the link below (Internet Explorer Only)

[Click Here to Take the Survey](#)

When you have completed all pages of the survey, click on the [submit](#) button. After you receive confirmation that your entire survey was submitted, you may exit your browser program.

We are committed to making this survey successful. If you have any questions about the survey process, please reply to this message, or contact [Name] by phone at [Telephone], or by e-mail [e-mail address]

Thank you,

[Signatory/Title]

**GRANT RECIPIENTS
COMMUNICATION 3**

Subject: [OPDIV] Grant Recipient Survey

Dear [Full Name],

Recently we asked that you complete a survey to help us evaluate and improve the performance of our Grants Management and Program Offices. As of today, we have not received your response.

It is important that you participate in the survey for the results to be truly representative. Please respond promptly. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

Please be assured that your responses are kept strictly confidential and only aggregate data will be reported. Your response will have no impact on eligibility for receipt of future services or funding.

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Thank you,

[Signatory/Title]

**GRANT RECIPIENTS
COMMUNICATION 4**

Subject: [OPDIV] Grant Recipient Survey

Dear [Full Name],

We are conducting an important survey of grant recipients to find out about your point of view on various aspects of our grants management function. You have been asked to participate in this survey because you are an important stakeholder in the grants process.

Please take time now to complete the survey. It is easy to access in the Internet by using the link below, and takes only about 15 minutes to complete.

In order that the results be truly representative, it is important that each person complete a survey. The survey is easy to access on the Internet and takes only about 15 minutes to complete.

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Thank you,

[Signatory/Title]

**GRANT RECIPIENTS
COMMUNICATION 5**

Subject: [OPDIV] Grant Recipient Survey

Dear [Full Name],

By now you should have received several messages asking you to complete a survey to help us evaluate and improve the performance of our grants management function. As of today, we have not received your completed survey.

Your input is important! It will take only about 15 minutes of your time.

Please respond promptly. Please be assured that your responses are kept strictly confidential and only aggregate data will be reported. Your response will have no impact on eligibility for receipt of future services or funding.

You may participate in the survey using the Internet by clicking on the link below (Internet Explorer Only)

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Thank you,

[Signatory/Title]

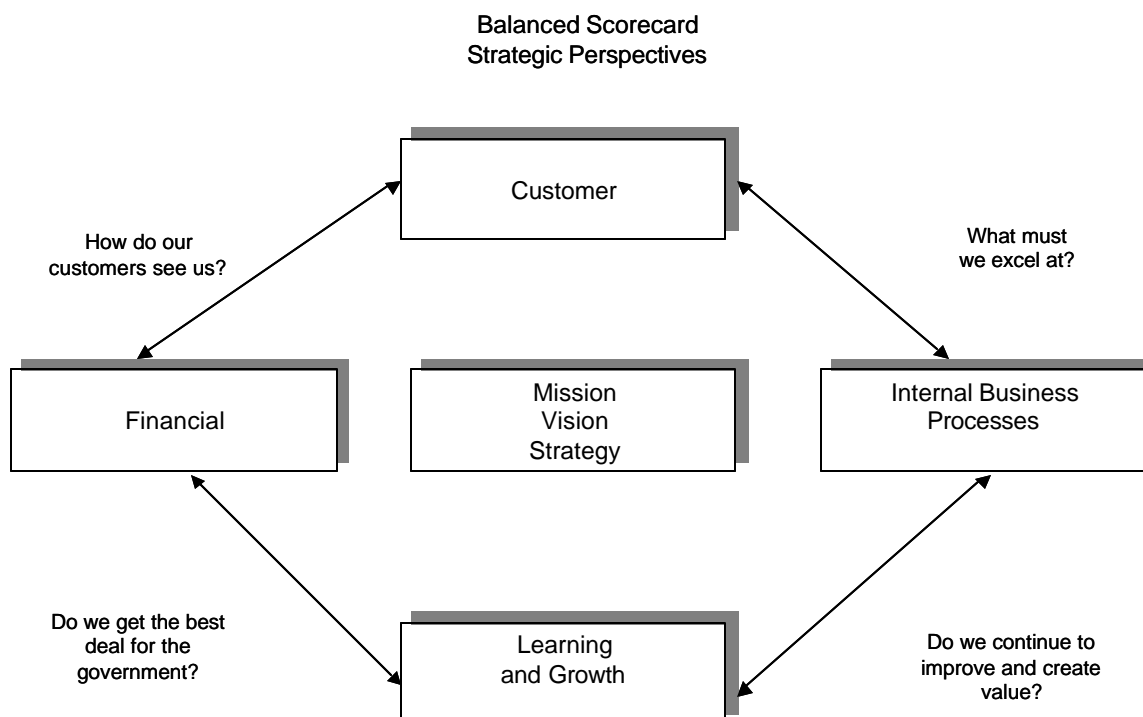
Data Links

This section relates the questions in each survey to the perspectives of the Balanced Scorecard. The pages that follow in this section identify the perspectives, surveys, subject areas, question numbers, and text of the questions.

As the framework for its performance measurement and improvement system, DHHS uses a Balanced Scorecard approach. That approach examines an organization's performance from four broad perspectives: financial, customer, internal business processes, and learning and growth. These perspectives provide a complete picture of the organization's past and current performance, as well as its potential for improved future performance. Figure 1 depicts the Balanced Scorecard framework. A brief explanation of each of the perspectives follows:

- ◆ *Financial perspective.* This perspective is intended to measure the success of the organization in achieving cost efficiency. It asks the question: How well does the organization succeed in delivering maximum value to the customer?
- ◆ *Customer perspective.* This perspective is intended to measure the success of the organization in serving its customers. It asks the question: How well does the organization satisfy the needs of its customers?
- ◆ *Internal business processes perspective.* This perspective is intended to measure the success of the organization in developing and implementing effective internal business processes. It asks the question: How well does the organization excel in its internal business processes used to serve its customers and the interests of its stakeholders?
- ◆ *Learning and growth perspective.* This perspective is intended to measure the success of the organization in continuously learning and growing, consistent with its vision and business strategy. It asks the question: How well does the organization grow and change in order to sustain its ability to serve its customers and the interests of its stakeholders?

Figure 1. Balanced Scorecard Framework



Source: Procurement Executives' Association, *Guide to a Balanced Scorecard Performance Management Methodology*, p. 8.

The mission of the DHHS is

To enhance the health and well-being of Americans by providing for effective health and human services, and by fostering sound, sustained advances in the sciences underlying medicine, public, health, and social services.

The *Strategic Plan* describes the Department's goals for a multi-year period and the *Annual Performance Plan* highlights performance measures and targets specific to the current year.

This *Manual for Performance Measurement and Improvement* for Acquisition, Grants Management, Small Business, and Government Property/Logistics provides a Balanced Scorecard approach to ensuring that these areas continue to provide an enhanced capability of supporting and accomplishing the Mission, Strategic and Performance Plans of the Department.

The depiction of the Balanced Scorecard Framework in Figure 1 shows the high-level strategic perspectives currently in use. Within each strategic perspective there may be one or more goals, such as improving quality, service, or timeliness. For each of those goals a series of questions asks employees, customers, vendors/grant recipients, and managers to evaluate performance in a specific area. For example, the acquisition customer survey asks customers to evaluate the procurement office on "plans effectively for timely delivery" and "meets projected contract award dates." The set of supplements to this manual contain the full list of questions for each survey and their linkage to the balanced scorecard perspectives.

Linkage of Grants Management Survey Data to Balanced Scorecard Perspective

Survey	Subject	Question	Question Element
Financial Perspective			
Employee	Business Management Review	8a	My office reviews grant applicants' business management systems to ensure compliance with policy requirements
		8b	My office reviews applicants' proposed budgets to verify cost data, evaluate specific cost elements, and determine reasonableness and appropriateness of the budget
Employee	Post-Award Administration	10a	My office tracks receipt of required financial reports, programmatic reports, and special reports required by award terms and conditions to ensure they are received on time, coordinated with the Program Office, and fully processed
		10b	My office reviews reports in sufficient depth to detect problems or issues (e.g., excessive drawdowns, excessive unobligated balances, earning and disposition of program income)
Internal customer	Award	5a	Reviews grant application budget and negotiates needed changes
Internal customer	Post-Award	6d	Takes necessary follow-up actions to address grantee business management or financial problems or issues
Grant recipient	Award Phase	11	The Grants Management Office ensures that the grant award process is fair and equitable for all grant applicants
		12	The Program Office ensures that the grant award process is fair and equitable for all grant applicants
Grant recipient	Reporting/Post-Award Administration	13	The Grants Management Office notifies grantees if financial reports are late, if problems or issues are detected, and if corrective actions are needed
Internal Business Processes Perspective			
Employee	Policies and Procedures	3a	In my office, grants management policies and procedures are easily accessible
		3b	In my office, grants management policies and procedures are easy to use and apply to job tasks
Employee	Planning	4a	My office works in partnership with the Program Office(s) in the development and documentation of an annual plan
		4b	My office ensures that annual plans are developed early enough in the grants cycle to influence the scheduling of grant events
		4c	My office tracks activities against the annual plan to ensure successful implementation

*Linkage of Grants Management Survey Data
to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
		5	[Y]our office consistently reviews funding opportunity announcements (program announcements and Requests for Applications) for adequacy and compliance with policies and procedures
Employee	Application Processing	6	[Y]our office has an effective grants application receipt and tracking system
Employee	Objective Review	7a	My office monitors proposed objective review processes to ensure compliance with policies and procedures
		7c	My office reviews the ranking list to ensure it reflects the outcome of the objective review
		7d	My office ensures the ranking list is signed, or counter-signed, by the Grants Management Officer as appropriate
		7e	My office reviews out-of-rank order award decisions to ensure that reasonable justification exists for such decisions
Employee	Award	9a	My office ensures that award documentation is complete and accurate, and that it includes any special terms and conditions needed to comply with policy requirements
		9b	My office ensures that the award documentation is prepared and issued on a timely basis
Employee	Post-Award Administration	10c	My office follows up, as necessary, with grantees to obtain delinquent reports
		10d	My office takes corrective action needed to address problems or issues detected
Employee	Closeouts	11	[Y]our office performs timely grant closeouts (after the end of the project period)
Employee	Technical Assistance	12a	My office provides technical assistance to grant applicants and recipients in a way that is consistent and fair
		12b	My office provides technical assistance that accurately reflects current policies and procedural requirements in statutes and regulations, departmental grant policies, and OPDIV policies
		12c	My office provides technical assistance in a timely manner
Employee	Information Technology	13a	In my office, information technology is easily accessible
		13c	In my office, information technology is designed, integrated, and administered in a way that helps me perform my job tasks efficiently and effectively
Employee	Business Process Improvement	14a	In my office, business process improvement is emphasized as important

*Linkage of Grants Management Survey Data
to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
		14b	In my office, business process improvement is measured against established goals and objectives
		14c	In my office, business process improvement has resulted in definite improvements in the quality and efficiency of grants management operations
Employee	Work Environment	18a	Workload is distributed fairly
		18b	People work together effectively on teams and help each other to get the job done
		18c	Work units within the office communicate well with one another
		18d	Management communicates with me effectively
		18e	Management solicits my ideas and opinions regularly
		18f	Management recognizes a job well done
		18g	Management strives to improve the physical workplace
Internal customer	Policies and Procedures	2a	My Grants Management Office requests my participation during the grants policy development process
Internal customer	Pre-Award	3a	My Grants Management Office develops a planned schedule of grant events
		3c	My Grants Management Office ensures that annual plans are developed early enough in the grants cycle to influence the scheduling of grant events
		3d	My Grants Management Office tracks activities against the annual plan to ensure successful implementation
		3e	My Grants Management Office consistently reviews funding opportunity announcements (program announcements and Requests for Applications) for adequacy and compliance with policies and procedures
		4a	My Grants Management Office reviews grant applications for completeness and compliance
		4d	My Grants Management Office posts current and complete on-line application information
Internal customer	Award	5b	Prepares a complete and accurate award notice that includes special terms and conditions needed to fully define the agreement and protect the government's interest
		5d	Awards grants in a timely manner
Internal customer	Post-Award	6a	Forwards required grantee reports to the Program Office

Linkage of Grants Management Survey Data to Balanced Scorecard Perspective

Survey	Subject	Question	Question Element
		6e	Provides grant recipients with technical assistance on grants management policies, procedures, or requirements related to post-award administration
Internal customer	Information Technology	7a	My Grants Management Office uses its available technology to operate the grants process in an efficient and effective manner
		7b	My Grants Management Office provides me with useful, accurate, and timely reports (or direct access to a database) on my grants and grant recipients
Internal customer	Business Process Improvement	8	[Y]our Grants Management Office is committed to continuously improving the quality, timeliness, and efficiency of its business processes with Program Offices and other partners
Internal customer	Staff Capabilities	9a	The staff members in my Grants Management Office understand and support the goals of my grant program
		9b	The staff members in my Grants Management Office are expert in grants management policy and procedural requirements and their interpretation
		9c	The staff members in my Grants Management Office have the knowledge, skills, and abilities to get the job done
Internal customer	Customer Service/ Cooperation	10d	The staff members in my Grants Management Office provide consistent guidance, regardless of whom I talk to
		10f	The staff members in my Grants Management Office help me define grants-related issues and options for responding
		10g	The staff members in my Grants Management Office contribute positively to the overall success of my grant program
		11a	The relationship between my Grants Management Office and my Program Office is characterized by a clear definition of the roles, responsibilities, and authorities of each office
Grant recipient	Customer Service/ Cooperation (GMO)	3b	Provides consistent and accurate advice and assistance
Grant recipient	Customer Service/ Cooperation (PO)	4b	Provides consistent and accurate advice and assistance
Grant recipient	Policies and Procedures	5a	Grants Management policies and procedures are made readily available to grant applicants and recipients
		5b	Grants management staff members assist grant applicants and recipients in the interpretation of grants management policies and procedures

*Linkage of Grants Management Survey Data
to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
		5c	The Grants Management Office uses appropriate tools (e.g., automation, Internet) to make the grants process easier
Grant recipient	Pre-Award Phase (PO)	6a	Grant announcements clearly describe program requirements
		6b	Applicants are provided with sufficient time to complete applications
Grant recipient	Pre-Award Phase (GMO)	7	Grants Management Office ensures that the application process employs technology and other means to make the application process easy and efficient
Grant recipient	Pre-Award Phase	8b	The OPDIV provides clear rationale for non-selection to applicants not selected for an award
Grant recipient	Pre-Award Phase (GMO)	9	The Grants Management Office explains to applicants any changes and invites their input
Grant recipient	Award Phase	10a	The Grants Management Office issues award documentation with the information necessary for managing the grant, including clear terms and conditions
		10b	The Grants Management office issues awards in a timely manner (in accordance with the timeframes, if any, specified in the program announcement and in advance of the grant project start date)
		11	Grants Management Office ensures that the grant award process is fair and equitable
		12	Program Office ensures that the grant award process is fair and equitable
Grant recipient	Reporting/Post-Award Administration (GMO)	14	Grants Management Office notifies grantees if progress reports are late, if problems or issues are detected, and if corrective actions are needed
		15a	Responds to requests for prior approval in a timely manner, providing needed information
		15b	Closes out grants in a timely manner
Grant recipient	Technical Assistance (GMO)	16a	The Grants Management Office provides clear, accurate, and helpful technical assistance
		16b	The Grants Management Office provides timely technical assistance
Grant recipient	Technical Assistance (PO)	17a	The Program Office provides clear, accurate, and helpful technical assistance
		17b	The Program Office provides timely technical assistance

Linkage of Grants Management Survey Data to Balanced Scorecard Perspective

Survey	Subject	Question	Question Element
Customer Perspective			
Employee	Objective Review	7b	My office attends panel meetings and provides advice on the interpretation of policies and procedures
Employee	Post-Award Administration	10e	My office responds a timely manner to requests for prior approval and other grant-specific requests or inquiries
Employee	Customer Service	15a	My office undertakes and engages in quality customer service with its Program Office partners
		15b	My office undertakes and engages in quality customer service with grant applicants and recipients
		16a	The roles and responsibilities of the Grants Management Office and Program Office are clearly defined and understood
		16b	The Program Offices I interact with understand grants management policies and procedures
		16c	The Program Offices I interact with value the role of the Grants Management Office
		16d	The Program Offices I interact with provide necessary information to grants management staff in a timely manner
		17	[Y]our office has established an effective partnership approach
Internal customer	Planning	3b	My Grants Management Office works in partnership with me in the development and documentation of an annual plan
Internal customer	Policies and Procedures	2b	My Grants Management Office ensures I have ready access to the grants management policies and procedures I need to do my job
Internal customer	Pre-Award	4b	My Grants Management Office adds value to the objective review process
		4c	My Grants Management Office provides pre-award business management technical assistance to applicants
		4e	My Grants Management Office provides useful and accurate advice, assistance, and interpretation related to pre-award grants management policies and procedures
Internal customer	Award	5c	Collaborates with the Program Office, during the award phase so that program requirements are fully reflected in the award
Internal customer	Post-Award	6b	Seeks advice and input from the Program Office on grantee requests for prior approval and other inquiries regarding business management matters

*Linkage of Grants Management Survey Data
to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
		6c	Keeps the Program Office informed of potential business management or financial problems with grantees
		6f	Provides me with useful and accurate advice, assistance, and interpretation related to post-award grants management policies and procedures
Internal customer	Customer Service/ Cooperation	10a	The staff members in my Grants Management Office make me feel like an important partner
		10b	The staff members in my Grants Management Office get right back to me when I call or e-mail with questions
		10c	The staff members in my Grants Management Office try to be proactive and anticipate what I need
		10e	The staff members in my Grants Management Office treat me courteously and professionally
		11b	The relationship between my Grants Management Office and my Program Office is characterized by open, effective communication between the two offices
		11c	The relationship between my Grants Management Office and my Program Office is characterized by mutual respect for the needs of each office
Grant recipient	Customer Service/ Cooperation (GMO)	3a	Responds promptly to inquiries (e.g., via telephone, e-mail)
		3c	Treats grant applicants and recipients courteously and professionally
Grant recipient	Customer Service/ Cooperation (PO)	4a	Responds promptly to inquiries (e.g., via telephone, e-mail)
		4c	Treats grant applicants and recipients courteously and professionally
Grant recipient	Pre-Award Phase	8a	The OPDIV provides timely feedback to grant applicants on the results of the application evaluation process
Learning and Growth Perspective			
Employee	Policies and Procedures	3c	In my office, grants policies and procedures are accompanied by useful instruction and guidance on how to interpret and apply them
Employee	Information Technology	13b	In my office, information technology is accompanied by useful instruction and guidance on how to apply it
Employee	Work Environment	19a	I have the knowledge and skills needed to perform my job
		19b	I understand my roles and responsibilities
		19c	I am given discretion to make appropriate decisions

*Linkage of Grants Management Survey Data
to Balanced Scorecard Perspective*

Survey	Subject	Question	Question Element
		19d	My office shows its commitment to workforce development by providing the needed time and resources for training
		19e	Performance plans encourage innovation, proactivity, and responsiveness
		19f	I have access to the training I need to perform my job
		19g	I have received high quality training
		19h	The training I have received helps me contribute more effectively to the performance of my office
Internal customer	Program Official Training	12	[Y]our Grants Management office effectively promotes formal grants management training for Program Officials/Project Officers
		13	Have you received formal training on grants management
		15	Was the training provided within one year after you were assigned Program Official/Project Office responsibilities
		16	[T]he training you received was helped you carry out your Program Official/Project Officer responsibilities

Vulnerability Indicators and Index

Many questions in the survey instruments pertain to compliance issues—areas that are directly related to fulfillment of particular policies and procedures. For example, the acquisition customer survey contains a question element that asks whether the respondent agrees or disagrees that procurements are conducted impartially. To create a vulnerability risk index for these types of issues, DHHS and the OPDIVs identified the question elements (questions have several parts) that are compliance indicators. Some of the question elements were designated as being more important than others, so they have been named Vulnerability Critical Indicators (VCIs). If the scores for these items fall below an established threshold, then the organization is probably at risk of being noncompliant. (Weighting the results by importance or relationship to the process was considered, but dropped because weighting did not fundamentally change the results, nor did it provide additional insight into the data.)

The VCIs require greater visibility within the results and as such are reported on individually. The VCI scores are created from the survey data by using the percentage of positive responses received to the question item.

In addition to the most critical indicators, other question items related to compliance are combined into a second index of other compliance indicators.

Grants Management Vulnerability Indicators

Vulnerability Critical Indicators (VCIs)		
Survey	Question	Question element wording
Employee	7c	My office reviews the ranking list to ensure it reflects the outcome of the objective review
	7d	My office ensures the ranking list is signed, or counter-signed, by the Grants Management Officer as appropriate
	7e	My office reviews out-of-rank order award decisions to ensure that reasonable justification exists for such decisions
	8a	My office reviews grant applicants' business management systems to ensure compliance with policy requirements
	8b	My office reviews applicants' proposed budgets to verify cost data, evaluate specific cost elements, and determine reasonableness and appropriateness of the budget
	9a	My office ensures that award documentation is complete and accurate, and that it includes any special terms and conditions needed to comply with policy requirements
	9b	My office ensures that the award documentation is prepared and issued on a timely basis
	10a	My office tracks receipt of required financial reports, programmatic reports, and special reports required by award terms and conditions to ensure they are received on time, coordinated with the Program Office, and fully processed
	10b	My office tracks reports in sufficient depth to detect problems or issues (e.g., excessive drawdowns, unobligated balances, and earning and disposition of interest and program income)
Grant recipient	10a	The Grants Management Office issues award documentation necessary for managing the grant, including clear terms and conditions
	10b	The Grants Management Office issues awards in a timely manner (in accordance with the timeframes, if any, specified in the program announcement, and in advance of the grant project start date)
	11	The Grants Management Office ensures that the grant award process is fair and equitable
	12	The Program Office ensures that the grant award process is fair and equitable

Other Indicators		
Survey	Question	Question element wording
Employee	4a	My office works in partnership with the Program Office(s) in the development and documentation of an annual plan
	4b	My office ensures that annual plans are developed early enough in the grants cycle to influence the scheduling of grant events
	4c	My office tracks activities against the annual plan to ensure successful implementation
	5	[My] office consistently reviews funding opportunity announcements (program announcements and Requests for Applications) for adequacy and compliance with policies and procedures
	7a	My office monitors proposed objective review processes to ensure compliance with policies and procedures
	7b	My office attends panel meetings and provides advice on the interpretation of policies and procedures
	10c	My offices follows up, as necessary, with grantees to obtain delinquent reports
	10d	My office takes corrective action needed to address problems or issues detected
	10e	My office responds in a timely manner to requests for prior approval and other grant-specific requests or inquiries
	11	[My] office performs timely grant closeouts (after the end of the project period)
Internal customer	2a	My Grants Management Office requests my participation during the grants management development process
	2b	My Grants Management Office ensures I have ready access to the grants management policies and procedures I need to do my job
	4e	My Grants Management Office provides me with useful and accurate advice, assistance, and interpretation related to pre-award grants management policies and procedures
	6f	My Grants Management Office provides me with useful and accurate advice, assistance, and interpretation related to post-award grants management policies and procedures
	9a	The staff members in my Grants Management Office understand and support the goals of my grant programs
	9b	The staff in my Grants Management Office are expert in grants management policy and procedural requirements and their interpretation
	9f	The staff in my Grants Management Office helps me define grants-related issues and options for responding
	11b	The relationship between my Grants Management Office and my Program Office is characterized by open, effective communication between the two offices
	12	The Grants Management Office effectively promotes formal grants management training for Program Officials/Project Officers

Other Indicators		
Survey	Question	Question element wording
Grant applicant/recipient	5b	Grants Management staff assists grant applicants and recipients in the interpretation of grants management policies and procedures
	8a	The OPDIV provides timely feedback to grant applicants on the results of the application evaluation process
	8b	The OPDIV provides clear rationale for non-selection to applicants not selected for an award

Group Reward and Recognition

Prepared for the Acquisition Performance Measurement and Improvement Users Group of
the Department of Health and Human Services

August 1997

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Group Reward and Recognition

INTRODUCTION

To monitor the performance of the procurement function the Department of Health and Human Services (HHS) is using a balanced scorecard approach. It is focused on applying team efforts to make procurement system improvements. This paper builds upon the recent reward and recognition guidance given to the HHS Acquisition Performance Measurement and Improvement Users Group. It discusses approaches to group reward and recognition, identifies options for the HHS Operating Divisions (OPDIVs) to consider for implementation, and links reward and recognition systems to the HHS acquisition balanced scorecard.

In parallel with this HHS initiative, an enhanced system of performance incentives for the acquisition work force has been called for in the recent acquisition streamlining statutes and initiatives. In March 1997, the Administrator of the Office of Federal Procurement Policy (OFPP), a member of the President's Management Council (PMC), urged federal agencies to provide cash bonuses to teams of employees who have achieved outstanding results in contracting, as the next step in moving towards results-based accountability for the procurement system. He asked each agency to set aside an amount for one or more annual department-level bonus awards to teams of employees—consisting of procurement personnel or procurement and program people working together—who have achieved excellence in contracting. [FCR]¹ These department-level awards may dovetail nicely with OPDIV-level bonuses.

Studies of reward and recognition systems and underlying motivation have proliferated as the development of more and more such systems has been attempted. With increased interest in group or team efforts, additional complexity has been introduced. Most of the previous work on this subject has been addressed to the private for-profit sector rather than to government, since the private sector has clear-cut measures of success. But the public sector in general lacks such measures—in particular the commercial world's primary measure: demonstrated ability to attract and retain customers in a competitive marketplace and to serve them in a manner that produces profits (although the Government Performance and Results Act [GPRA] and franchising may alter this landscape somewhat). And without effective performance measures, reward and recognition become sources of dissatisfaction rather than positive motivators.

¹ Bracketed abbreviations, names, or numbers following portions of the text refer to sources or to the names of authors and page numbers for documents listed in the "References" section at the end of this paper.

In the for-profit private sector, managers have tried to develop systems that will link reward to performance. Many approaches have been tried: stock options, bonuses, profit sharing, gain-sharing, prizes, public recognition, etc. Within the not-for-profit public sector, such as in the federal government, some of these options are not available. However, the statutes and the Office of Personnel Management (OPM) do allow many types of rewards.

Some of the means of reward and recognition in the private sector have been established as compensation systems to deal with the entire employee pay issue. At present, much of the effort to review compensation systems is undertaken with a view to making them more flexible. If this effort is successful, the employee's pay becomes a variable cost rather than a fixed one. Managers argue that in that case companies would then be able to be more responsive to changing market conditions. These same issues underlie the discussion with regard to the government and may become immediately relevant, particularly in fee-for-service operations. Although there may be no real separation, this paper focuses on the use of rewards and recognition rather than the general compensation system in use.

As organizations try to improve their operations by using the precepts of quality management, they increasingly emphasize the use of teams. But doing so makes the reward and recognition process even more challenging. A host of questions arise. Should the entire team be recognized equally? What about "free riders?" Does any effort to distinguish differences within teams destroy the purpose of establishing the team in the first place? Is it good to have teams compete against one another? Or does the use of team competition establish still another counter-productive type of behavior within the organization?

Should rewards be used? Especially in an environment in which teamwork is being encouraged, do they thwart efforts at building teams? Does the offering of extrinsic rewards drive out motivation that stems from the employees' intrinsic motivation?² Does the institution of an award system indicate that the management has decided that the work cannot be intrinsically motivating?

If reward and recognition programs are to be established, how should this be done? Most of the literature on this point quickly concludes that employees should have a great deal of input in this area. But should they have the final say? Won't management lose control? For instance, how can the rewards be set up to guide the employees toward the correct goals, unless it is the managers who establish the reward and recognition systems?

² Intrinsic motivation is related to aspects of the job itself. Extrinsic motivation is related to outside factors.

SUMMARY OF RECOMMENDATIONS

Our recommendations are given in brief in this section. We discuss the rationale for each in the main body of the paper.

In all cases the primary focus should be on intrinsic motivation. This should be done in part by stressing the importance of the mission of the unit and the significance of the tasks to support the mission. This should not be difficult in HHS. Managers should make employees' tasks interesting, varied, and challenging—also easy to do in most procurement situations. Managers should give people choice, control, individual responsibility, and feedback—following the general thrust of recent guidance in the profession. Managers at all levels should continually emphasize the professional nature of the work and workers in acquisition—that they are the government's professional business experts in market research, contract competition, performance-based work statements, negotiation, cost/price analysis, acquisition streamlining and innovation, and monitoring contractor performance.

If extrinsic rewards are needed at all, they should be as closely linked to the normal work effort as possible to minimize the risk of harming intrinsic motivation. Some extrinsic rewards that might be suitable are special training in the same work area or allowing a team to manage its own budget. Eventually, if any extrinsic rewards are used, they should be linked to the balanced scorecard performance measurement approach.³

Intrinsic motivation or extrinsic rewards should be implemented with a team structure in mind. The development of a true team (not just a committee or group) for motivation issues is as important as or more important than team development for functional purposes. The members must be committed to a common purpose, set performance goals, learn to work together, make decisions, resolve conflicts and delegate responsibilities.

All members of a team should be rewarded equally so that no contests between team members are inadvertently established. Rewards should be offered after the fact as a surprise, not by formula and not on a periodic basis.

To ensure employee acceptance of and participation in any extrinsic reward and recognition system, they must understand the system. Understanding and employee “buy-in” to the system are more easily accomplished when the employees have participated in

³ Extrinsic reward systems must be linked to the organization's mission, vision, and goals. A comprehensive structure of acquisition performance survey and efficiency measures has to be in place if a balanced scorecard system is to provide suitable reward and recognition signals. We have developed the basic elements of such a structure, but they have to be integrated into a comprehensive, meaningful whole. It is not useful to select any one subset of performance measures—e.g., timeliness, quality, service-partnership, or efficiency—because that may result in suboptimizing attainment of the primary goal.

the its design. As much as possible, within the limits of the Office of Management and Budget (OMB), OPM, HHS, and OPDIV regulations and individual manager's requirements (or any granted exemptions), allow the team to determine its reward and recognition system.

Be aware of, watch out for, and avoid common pitfalls in implementing reward and recognition systems. Such systems are sometimes expected to correct all organizational problems, especially when the root causes are not well defined. Reward and recognition for teams require changes to old-style management, including the job appraisal process, because managers must be willing to give up control in order to empower the employee teams.

THE STATUTES AND OPM GUIDANCE

The statutes are very supportive of providing a wide range of reward and recognition programs. The Code of Federal Regulations states that agencies are authorized to “grant a cash, honorary, or informal recognition award or grant time-off without charge to leave or loss of pay...to an employee, as an individual or member of a group, on the basis of—

A suggestion, invention, superior accomplishment, productivity goal, or other personal effort that contributes to the efficiency, economy, or other improvement of Government operations or achieves a significant reduction in paperwork;

A special act or service in the public interest...;

Performance as reflected in the employee's most recent rating of record....” [OPM]

Awards that are not based on the employee's rating of record must be documented. In addition, awards over \$10,000 or to a member of the SES or excepted service or to those appointed by the President have special requirements. Agencies must explain their award programs, evaluate and document them, file and report data, and maintain records. Programs must provide for their funding. Finally, “agencies shall give due weight to an award ... in qualifying and selecting an employee for promotion....”

“Chapter 45 of title 5, United States Code, authorizes agencies to pay a cash award to, grant time-off to, and incur necessary expense for the honorary recognition of, an employee (individually or as a member of a group).... Such awards include but are not limited to, employee incentives which are based on predetermined criteria, such as productivity standards, performance goals, measurement systems, award formulas, or pay-out schedules.... Agencies are encouraged to involve employees in developing such programs.”[OPM]

In January, 1997, OPM issued guidance and policy interpretation on using non-monetary items as incentive awards. The OPM guidance cited the authority of the law (as noted above), pointed out that there is no explicit authority for non-monetary awards, and discussed several possible uses for them under various situations. Non-monetary items used for honorary awards, the most formal type of recognition, must meet all of the following criteria:

- ☐ The item must be something that the recipient could reasonably be expected to value, but not something that conveys a sense of monetary value.
- ☐ The item must have lasting trophy value.
- ☐ The item must clearly symbolize the employee–employer relationship in some fashion.

The item must take an appropriate form to be used in the public sector and to be purchased with public funds.

Informal recognition awards, which may recognize contributions of lesser scope that might otherwise go unrecognized, must meet these criteria:

The item must be of nominal value.

The item must take an appropriate form to be used in the public sector and to be purchased with public funds.

U.S. Savings Bonds are a special category of non-monetary item that OPM considers appropriate for either honorary or informal recognition awards, depending on their value.

Since many agencies now use electronic fund transfers, routinely making “cash” awards may be difficult, so cash surrogates are sometimes used as a special form of cash award. An agency-issued “award voucher,” which can be exchanged for currency through the imprest fund, is an example of an acceptable cash surrogate. “Gift cheques” purchased from a vendor and easily and widely redeemable for cash, rather than just merchandise, are also acceptable. The tax withholding obligations for cash surrogates are the same as those for cash awards. OPM approves of cash surrogates as long as their recipients have the same freedom and control over their use as they would over cash awards (including saving them or giving them away) and as long as they meet these criteria:

They are subject to all the limitations and requirements that apply to cash awards.

They must be easily and immediately convertible to cash.

- They must be widely redeemable—not just where purchased, at a few selected sites outside the agency, or through specific vendors.
- If purchased from a vendor or financial institution, they are subject to all relevant procurement regulations.

Merchant gift certificates usually have too many limitations to meet the requirements for cash surrogates, and they do not meet the requirements for honorary awards, but they may be used as an informal recognition award of nominal value.

The Federal Acquisition Streamlining Act (Public Law 103-355, Subtitle B, Section 5051) directs the Director for Management in the OMB to

“review the incentives and personnel actions available to the heads of departments and agencies of the Federal Government for encouraging excellence in the acquisition work force of the Federal Government and provide an enhanced system of incentives for the encouragement of excellence in such work force which (A) relates pay to performance (including the extent to which the performance of personnel in such work force contributes to achieving the cost goals, schedule goals, and performance goals established for acquisition programs pursuant to section 313(b) of the Federal Property and Administrative Services Act of 1949, as added by subsection (a)); and (B) provides for consideration, in personnel evaluations and promotion decisions, of the extent to which the performance of personnel in such work force contributes to achieving such cost goals schedule goals, and performance goals. [FASA]

A bill recently considered by Congress would allow private-sector companies to offer time-and-a-half compensatory time instead of paying for overtime. The bill does not affect government employees, who already get compensatory time off, but its passage would help support their efforts to increase “comp time” to time and a half. [Jones]

The statutes and regulations appear to allow sufficient latitude to provide reward and recognition systems to fit most situations.

MOTIVATING EMPLOYEES

Two sources of motivation are usually distinguished—intrinsic and extrinsic. Intrinsic motivation is related to aspects of the job itself. As a job increases in interest, variety, and responsibility, the individual can derive satisfaction and motivation from the job itself. Extrinsic motivation is related to outside factors, such as incentive payments for exceeding a goal or other types of monetary and nonmonetary rewards.

The underlying philosophy of managers will strongly influence the reward and recognition system adopted by each agency. If managers believe that the work force is primar-

ily motivated by intrinsic factors, the reward system will be very different from the one they would use if they believed that extrinsic rewards are of paramount importance. The perceived need for employee performance evaluation and its degree of objectivity or subjectivity will be especially important if extrinsic rewards are used primarily. The managers' comfort with allowing teams to have autonomy and to exercise discretion will also shape the reward system. This section will review some highlights of research in motivation and will discuss intrinsic and extrinsic motivation, employee performance evaluation, and the use and control of teams.

Frederick Taylor, writing on scientific management principles in 1911, believed that efficiency could be dramatically improved by using the techniques he advised. One implication of his work is that incentive wages can increase output. Elton Mayo, in 1927, described the importance of the group in the workplace. Mayo and others were involved in the workplace studies at the Hawthorne plant of Western Electric in Chicago, where the interaction between the workers and the experiments became one of the major findings of the research. An incentive payment plan approved by the workers was one of the experimental changes. Abraham Maslow found that people have a hierarchy of needs and that a satisfied need is not a motivator. High-level needs, such as for self-actualization, remain important long after needs for food and safety have been filled and no longer motivate the worker. In 1960, Douglas McGregor used Theory X (humans dislike work, must be controlled, prefer direction) and Theory Y (humans view work as a natural activity, exercise self-direction and self-control for committed objectives, make commitments as a function of rewards, and seek responsibility) to discuss managers' approaches to motivation. Frederick Herzberg divided factors into two groups: hygiene (policy and administration, supervision, working conditions) and motivators (achievement, recognition, work, responsibility, advancement, growth). Chris Argyis suggests offering job challenge and opportunity (and needed training) to employees to achieve motivation. Rensis Likert is a strong proponent of participative management. [Massie; Koontz & O'Donnell] As the economy has shifted in focus from industrial production to service occupations, the theories of motivation have also changed accordingly.

Intrinsic Motivation

To those who believe strongly in the power of intrinsic rewards, adding extrinsic rewards is unnecessary and probably harmful. *In Punished by Rewards: The Trouble with Gold Stars, Incentive Plans, A's, Praise, and Other Bribes*, Alfie Kohn reminds us that

...more and more researchers have come to recognize that we are beings who possess natural curiosity about ourselves and our environment, who search for and overcome challenges, who try to master skills and attain competence, and who seek to reach new levels of complexity in what we learn and do. This is more true of some people than others, of course, and in the presence of a threatening or deadening environment, any of us may retreat to a strategy of damage control and minimal effort. But in general we act on the environment as much as we are acted on by it, and we do not do so simply in order to receive a reward. [25]

Many others have found that workers have an intrinsic motivation and desire to do a good job. Higher level needs for self-actualization are desirable in the workplace, but often remain unmet. Deming notes that pay is not a motivator. Scholtes finds performance evaluation an exercise in futility. Kohn states that “[t]he evidence shows that if anything deserves to be called natural, it is the tendency to seek optimal challenge, to struggle to make sense of the world, to fool around with unfamiliar ideas. Human beings are inclined to push themselves to succeed at something (moderately) difficult.” [66]

Kohn believes that reward systems interfere with these natural feelings. As a result, such systems are all ineffective at best, and often do substantial damage. Reward systems reduce intrinsic motivation, devalue the work being rewarded, are seen as controlling behavior, limit collaboration, and discourage risk-taking. Using reward systems acknowledges one of the premises of behaviorism—the belief that we can get others to do what we want by promising a reward (i.e., positive reinforcement). Since this “is fundamentally a means of controlling people, it is by its nature inimical to democracy, critical questioning, and the free exchange of ideas among equal participants.” [30]

When rewards are offered, the activity being rewarded loses value. “Do this and you get that” reduces the value of the “this.” Employees may wonder—If the job were interesting enough or important enough to do on its own, why would they be offering this reward? The very fact that a reward is offered reduces the person’s intrinsic motivation to do this less interesting and less valuable task. Since the purpose of the reward system is to control behavior, it is not without reason that rewards are often perceived as being controlling. Perceiving that others want to control our behavior tends to make us fight that control and attempt to retain our autonomy. Rewards make teamwork and collaboration more difficult. We are less likely to take problems to a supervisor who is considering us for a reward. We may find it difficult to work on a team if we are eligible for individual awards, and teams may find it difficult to collaborate with other teams if there are team awards. Risk-taking may become more difficult when we are working to get a reward. Our goal may be to get the reward in the easiest way, using no more effort than necessary. The task may be seen as the roadblock on the way to the reward. As one psychologist read the available research, people who are offered rewards tend to choose easier tasks, are less efficient in using the information available to solve novel problems, and tend to be answer-oriented and more illogical in their problem-solving

strategies. They seem to work harder and produce more activity, but the activity is of a lower quality, contains more errors, and is more stereotyped and less creative than the work of comparable nonrewarded subjects working on the same problems. [48]

Kohn also finds that "...there is no question that intrinsic motivation is often corroded by circumstances other than receiving rewards, such as when we are

Threatened

Watched

Expecting to be evaluated

Forced to work under deadline

Ordered around

Competing against other people." [79]

Praise is particularly difficult. It can easily have the same negative effects as other rewards. Kohn notes "...the most notable aspect of a positive judgment is not that it is positive but that it is a judgment." [102] For praise to be effective, it should increase self-determination by helping the person to have an increased sense of control and should increase intrinsic motivation by creating the conditions for the person to become more deeply involved. [106] He offers four guidelines:

Don't praise people, only what people do.

Make praise as specific as possible.

Avoid phony praise.

Avoid praise that sets up competition. [108]

"Even managers who are sincere about providing genuine choice to employees may handicap such programs by hanging on to the premises and practices of behaviorism. This residual commitment manifests itself in two ways: offering employees the chance to make decisions as a reward for doing something else, and offering some other inducement for taking part in a participative management program." [196]

If a particular action (or inaction) is a problem, it is usually ineffective to try to solve it by using rewards. A reward system often allows managers to overlook the reason why the problem existed in the first place. Why didn't the employees naturally carry out the task in the manner or to the degree desired? If the reason can be discerned and corrected, the work will be accomplished through intrinsic motivation, and rewards will not be necessary.

Kohn has also observed that research suggests that rewards succeed only at securing temporary compliance. Once the rewards run out, people revert to their old behaviors. Rewards do not create an enduring commitment to any value or action. “As for productivity, at least two dozen studies over the last three decades have conclusively shown that people who expect to receive a reward for completing a task successfully simply do not perform as well as those who expect no reward at all....In general, the more cognitive sophistication and open-ended thinking that was required, the worse people performed when working for a reward.” [Kohn, HBR]

Since rewards are not effective in building intrinsic motivation for better job performance and instead tend to destroy such motivation, Kohn offers a number of suggestions to increase work performance (quality, output) on the job:

Step One: Abolish Incentives. Pay people generously and equitably. Do your best to make sure they don’t feel exploited. Then *do everything in your power to help them put money out of their minds*. People could be paid on the basis of need, or everyone equally, or—in a less drastic departure from current practice—on the basis of seniority, special training or skills, time consuming nature of job, or complexity of job). Profit sharing may be appropriate, but should be done as Deming suggested, with all getting equal shares. [182]

Step Two: Reevaluate Evaluation. The purpose of evaluation should be to provide feedback, discuss problems, and identify needs in order to help each employee do a better job

- ◆ It is a two-way conversation, an opportunity to trade ideas and ask questions, not a series of judgments....
- ◆ It is a continuous process rather than an annual or quarterly event.
- ◆ It never involves any sort of relative ranking or competition.
- ◆ Most important, is utterly divorced from decisions about compensation. [185]

Step Three: Create the Conditions for Authentic Motivation. Alan S. Blinder, in *Paying for Productivity: A Look at the Evidence*, said, “Changing the way workers are *treated* may boost productivity more than changing the way they are *paid*.”

Kohn’s guidelines are to

Watch: Don’t put employees under surveillance; look for problems that need to be solved and help people solve them.

Listen: Attend seriously and respectfully to the concerns of workers and try to imagine how various situations look from their points of view.

Talk: Provide plenty of informational feedback. People need a chance to reflect on what they are doing right, to learn what needs improvement, and to discuss how to change.

Think: Avoid the use of extrinsic motivators, control, exhortation, or power. [187]

Other conditions that Kohn thinks important are collaboration, content, and choice. With regard to collaboration, he finds that on most tasks, especially those involving some degree of complexity and requiring some degree of ingenuity, people do better in well-functioning groups than they do on their own. Also, they are more likely to be excited about their work as a result of having an exchange of talent and resources and receiving the emotional sustenance provided by social support. Of course, simply putting people in groups does not ensure that cooperation will take place. Considerable effort and organizational commitment are required to make that happen. Instead, though, many managers simply fall back on the usual gimmick for getting people to do things: bribery. [188]

With respect to content, employees will not be motivated if what they are doing all day holds no interest for them. They need a chance to engage in meaningful work. Motivation is typically highest when the job offers an opportunity to learn new skills, to experience some variation in tasks, and to acquire and demonstrate confidence. [189] Herzberg has said that "...employees are motivated by their own inherent need to succeed at a challenging task. ...the manager should provide opportunities for people to achieve as they will become motivated." [190] Managers should let people work at the jobs they find most interesting. This can be done by restructuring jobs so they become more interesting to more people.

With respect to choice, Kohn finds that people are most motivated when they participate in making decisions about organizational goals (and, of course, are given the necessary information and resources to do so). Even when those goals are determined by others, it is critical that employees be able to decide how best to reach them—i.e., that they hear from a supervisor, "Here's where we need to get; you decide how we get there." [193] And a review of 47 studies quantifying the extent to which participation in decision-making affected productivity and job satisfaction found a positive effect on both, regardless of the kind of work people did. [195] In some situations in which workers were unwilling to participate, most workers stayed away because they were "skeptical of the real importance of the program to the organization.... So-called participative programs that merely make employees feel good but don't actually change the power relationships in the workplace probably have not actually increased the amount of the employees' responsibility." [196]

Some jobs are more interesting than others. For those that are inherently interesting, Kohn notes that “Incentives will have a detrimental effect on performance when two conditions are present: First, when the task is interesting enough for subjects that the offer of incentives is a superfluous source of motivation; second, when the solution to the task is open-ended enough that the steps leading to a solution are not immediately obvious.” [47]

For the tasks that are unlikely to be intrinsically motivating, Kohn provides some guidance. The rule of thumb for getting people to internalize a commitment to working at them is to minimize the use of controlling strategies. He cites a three-pronged approach: First, imagine the way things look to the person doing the work and acknowledge candidly that it may not seem especially interesting. Second, offer a meaningful rationale for doing it anyway, pointing, perhaps, to the long-term benefits it offers or the way it contributes to some larger goal. Third, give the individual as much control as possible over how the work gets done. [90]

Kohn and many others recognize the importance of teams. However, he finds the use of rewards for teams to be no less damaging than rewards for individuals. The same is true regarding the practice of rewarding employees when they acquire new skills or participate in programs to improve the organization. [55 & 122]

But for people who must, or feel they must, continue to hand out rewards, it is possible to reduce the extent of the harm they do:

- Get rewards out of people’s faces.
- Offer rewards after the fact, as a surprise.
- Never turn the quest for them into a contest (no banquets, since most people will not be winners).
- Make them as similar as possible to the task.
- Give people as much choice as possible about how rewards are used.
- Try to immunize individuals against the motivation-killing effects of rewards by convincing employees that they find the task interesting, reminding them that they used to be interested in it, or training them to focus on what is intrinsically motivating about the task. [92]

Kohn also found that training and goal-setting programs had a far greater impact on productivity than did pay-for-performance plans. [Kohn, HBR] Intrinsic motivation is enhanced by interesting work, by the type of work, by learning new skills, by using one’s talents fully, and by making decisions. People are unhappy with work that lacks variety or challenge, has conflicts with co-workers or supervisors, or has too much

pressure. [131] As Deming and others have emphasized, incentive programs reduce the possibility that people will cooperate with each other. Rewards undermine interest "...incentive plans do not respond to the extrinsic orientation exhibited by some workers so much as they *create* this focus on financial factors." [141]

"Do rewards motivate people? Absolutely. They motivate people to get rewards." [67] The bottom line is that any approach that offers a reward for better performance is destined to be ineffective. [119] Bribes in the workplace simply can't work. [Kohn, HBR]

Saul Gellerman and William G. Hodgson find that many (if not most) achievers are motivated at least as much by pride or the desire to excel as they are by the hope of better pay. Some also claim that poor ratings tend to reduce the motivation of inferior performers. Views about compensation among comparably paid groups of professional workers depend less on actual individual salary levels than on the perceived fairness of the system for determining pay, reinforcing the claim that they were motivated more by professional pride than by money. One of them wrote in response to a survey question, "For me, the work ethic, my professional pride, and drive are stronger motivating factors than salary increases. But a poor salary increase could be a demotivator."

Gellerman and Hodgson found two main lessons in their research. First, motivation is more important than administrative convenience in establishing systems. Second, professional pride can be a powerful motivator and should not be discounted in considering how changes in performance appraisal and compensation systems will affect the productivity of knowledge workers. [Gellerman and Hodgson]

Extrinsic Motivation

The strongest supporters of the need for extrinsic motivation tend to agree that intrinsic motivation is better, but they feel that there are cases in which intrinsic motivation is just not strong enough. In those cases, some other motivating reward must be found. A wide variety of such rewards have been tried; some of them are discussed in this section.

One of the most widely recognized authorities in the area of designing pay systems that will motivate desired behavior is Edward Lawler III, author of *Strategic Pay: Aligning Organizational Strategies and Pay Systems*. As research on individual job enrichment has shown, when jobs are designed in such a way that people can do a whole piece of work, have responsibility for performing the task, and get feedback on it, intrinsic motivation to perform is high. [93] Lawler says, however, that the vast majority of the literature on motivation strongly supports the view that rewards such as pay can have a significant impact. Study after study has shown that an effective pay system can increase the motivation of individuals to perform by as much as 40 percent. [13] Most surveys show that employees at all levels still think that people should be paid for their performance and that pay for performance is a valid principle for salary administration. [80] Evidence suggests that in order to be motivating, changes in pay ought to be 10 to 15

percent rather than the often-seen 2 to 6 percent. [17] As has been repeatedly stressed, for a pay system to affect motivation, a significant portion of the pay package must be performance-based—at least 5 percent—for it to make any difference at all. For pay to be a significant motivator, however, the amount that should be at risk is probably closer to 10 to 20 percent.[202] The major reason for the popularity of merit pay is the belief that pay can motivate improved job performance and increase organizational effectiveness. As was noted earlier, research evidence clearly shows that pay can be a motivator when (1) it is important to employees and (2) it is tied to performance. [70]

The starting point for designing a reward system needs to be the strategic agenda of the organization. Only after the organization has decided on its approach to gaining competitive advantage can it talk about the specifics of its reward system. [13] Performance measures depend on the strategy and must be put in place. [14]

Lawler finds that rewards that are publicized tend to be valued much more than those that are not. [17] However, since the highly-valued Nobel prize, with a highly credible selection process, is viewed as unobtainable by so many, it does not motivate them. [20]

Most individuals quickly decide that they deserve whatever pay rate they receive and do not try to perform better in order to justify it... it is the anticipation of high pay that is motivating. Thus an organization that pays well will not necessarily have a highly motivated work force. [26] Changes in pay practices are often difficult to implement, because individuals who have stayed with any organization have done so in part because they like the reward system. Since the new reward system practices represent a whole new set of rules about how the game will be played, they can be extremely threatening to individuals who have been winners under the old rules. [33] Incentive plans often set up an adversarial relationship between those under the plan and those designing and administering it. In many cases the winner in this adversarial relationship is the employee. [61]

Thus, measuring and rewarding the performance of individuals in a team structure can be not only difficult but counterproductive, for it can detract from the sense of shared responsibility and accountability. At the very least, cooperation and teamwork must be measured in assigning merit pay to team members; otherwise, the reward system can pull a team apart. [77] Gain-sharing presupposes a participative system. [114] It combines a bonus plan with a participative approach to management; and typically measures controllable costs or units of output in calculating a bonus. Under the typical gain-sharing plan, financial gains in organizational performance are shared, on a formula basis, with all employees in a single plant or company location. A historical base period of performance is established as a benchmark for determining whether gains have occurred; hence the name “gain-sharing.” Again, only controllable costs are usually measured in computing the gain. Unless a major change takes place in the organization’s product or technology, the historical base stays the same during the plan’s entire history;

thus performance is always compared to that of the period before the institution of the plan. When performance is better than it was in the base period, a bonus pool is funded. When it falls short, no funding occurs. In the typical plan, about half of the bonus pool is paid out to the employees; the company keeps the rest. Payments are typically made on a monthly basis, with all employees getting the same percentage of their base pay. There are several types of gain-sharing plans, including Scanlon, Rucker (comprehensive set of cost measures), and Improshare (simple formulas that focus on the relationship between labor input and productivity). [110] The most important thing we know about gain-sharing plans is that they work. [115] In fact, the evidence suggests that they work about 75 percent of the time. [116]

In 1989, management of Wells Fargo Bank decided that the bank had had a good year and gave all employees a \$500 check for themselves and a \$35 coupon to be given to the colleague who had been most helpful to them. There is little chance that this kind of program affects motivation, because there is little chance that employees can influence whether or not a bonus is paid. The bonuses may have an impact on the culture, but this impact may not be positive: for instance, discretionary profit sharing may create unrealistic expectations about what will happen in the future. It may also reinforce the power of management and remind employees that they are dependent on management's "generosity." [124]

Job-based pay typically rests upon the foundations of a job evaluation system. This typically consists of a job description with the job factors weighted. Jobs are usually compared internally and externally, and the system is part of the bureaucratic organizational structure. Such systems receive lots of criticism. [135] When pay is based on subjective performance measures, little is done by management to create the perception it is truly based on performance, because employees do not trust subjective measures. [72]

Skill-based pay [153] starts with base pay for unskilled work, plus something (perhaps \$.50/hr) for each skill. In some systems, the employee must have four skills, which may have separate levels of complexity. Managers have to measure the skill levels of the workers. This system is often used in a technical ladder or for an apprenticeship in skilled trades. The effectiveness of skill-based pay is uncertain. [160] While it is flexible and involves self-management, it often leads to high pay rates and is marked by expensive training (e.g., lack of skill while learning new job), by skill assessment problems, by difficult market comparisons, and by problems associated with obsolete skills.

From a motivational perspective, a pay-for-performance plan that awards executive bonuses based on comparing the firm's performance with that of others in the industry is ideal. Relative performance is more under the organization's control than unadjusted economic performance would be. [194]

Research on participation strongly suggests that involving individuals in the design of systems that will affect them has definite advantages. Perhaps the most important advantage has to do with their acceptance of a system and their commitment to seeing that it operates effectively. A participative decision-making process also helps employees understand the decisions. Finally, the evidence on participative decision-making suggests that the decisions may change for the better when a broad range of individuals participate. [222] The principal risks in participation revolve around how much individuals will be motivated by narrow self-interest considerations. [224] Team-building activities should recognize the self-interest factor and discuss and fully clarify it. A participative development process that uses a task force is more likely to lead to a high level of acceptance and trust of the resulting system. [119] The team should be a diagonal-slice task force including all levels and all functions. The key factor for success is whether the individuals on the task force feel that their recommendations will be given serious consideration—i.e., that they will be rejected only if there is a clear and glaring flaw in them. [226]

A number of companies are focusing on the loyalty, security, and commitment of their employees. Recently cited for such efforts were Ford Motor, Boeing, Monsanto, America West Airlines, and Xerox. Towers Perrin found that employers now believe that they “can’t sustain performance without an engaged, committed work force.” They are trying to ease employee anxiety and win loyalty back by using corporate “career security” programs, packaged as enhanced training or new efforts to help white-collar workers adapt to change instead of leaving. Other companies are changing pay plans to give employees a bigger stake in the company’s success. America West paid every participant in its “AwardPay” plan a 10.25 percent bonus. United Technologies Corp.’s Pratt & Whitney jet engine unit recently offered bonuses and a slice of any profit gains to some 1,500 nonunion employees if they agreed to embrace efforts to boost efficiency, including extensive training and broader job responsibilities. Profit-sharing checks will likely be “north of \$1,500 a person.” [White & Lublin]

DIFFICULTIES WITH EMPLOYEE EVALUATION

Intrinsic motivation does not require an employee performance evaluation system, but rewards and recognition based on extrinsic motivation do. Some method of employee evaluation must be used to separate those who deserve the rewards from those who do not. However, employee performance evaluation is not easy to accomplish. In a 1992 report on The Survey of Federal Employees (SOFE), representing the responses of 32,000 out of 57,000 employees included in a national survey, fewer than one-fifth of the respondents agreed that the appraisal system motivates employees to perform well, and only half believed that they would receive a pay raise or cash award if they performed exceptionally well. [Bates]

Employee performance evaluations have long been regarded as ineffective and unhelpful. Deming dismissed such evaluations as a “deadly disease.” A 1995 survey indicated that 44 percent of 218 companies with evaluation systems had changed their systems in the previous 2 years and that another 29 percent expected to do so shortly. More and more companies are realizing that once-a-year reviews don’t work well. Many firms require managers to review employees formally at least twice a year, and to informally talk with them even more often about how they are doing. A study found that from 1990 to 1992, in financial measures such as return on equity, total shareholder return, sales growth and cash flow, companies with year-round evaluation systems significantly outperformed competitors lacking such systems. The study also indicated that a company’s financial results strengthened considerably within 2 years of adopting a year-round system. [Schellhardt]

At Hunt Oil Co. of Dallas, which has done away with written evaluation forms, managers sit down with employees and ask simple questions to determine what employees think they have accomplished and what they expect to accomplish in the coming year. Only 1 percent to 2 percent of employees are written up for poor performance. “If you just concentrate on goal setting and giving feedback constantly, you get better performance all the time.” Companies are better off teaching everyone how to give and receive constructive feedback. [Schellhardt]

In recent years, a growing number of companies, especially those with employees working in teams, have changed their evaluation systems to include so-called “360-degree” (or multirater review) feedback. Under this system, employees are rated by their immediate supervisor and also by team members, subordinates, and even customers. A 1995 study of 218 companies, performed by William M. Mercer, found that about 40 percent of them made some use of nontraditional evaluators, up from 12 percent in a 1992 study by another firm. But even the 360-degree system sparks criticism. Frequently, employees can choose their friends to provide feedback—so, how truthful is the process? It may become a popularity contest, filled with rabid politics and creating widespread dissatisfaction. People given poor or average performance ratings retaliate and “label the truth-tellers ‘snitches.’” Some fear the 360-degree assessments will become a passing fad with some organizations already abandoning them. It can backfire if employees aren’t carefully prepared to get feedback; some workers worry that a company will use the system simply to weed out poor performers. Far too many firms focus too much on scoring employees and too little on developing them.” [Schellhardt]

Performance measures can result in high levels of anxiety. Theresa Welbourne, a business professor at Cornell University, the alma mater of Bob Felton, the founder of Indus Group, wanted to study the company’s mood before, during, and after a stock offering. She developed an electronic reporting system to record confidentially the “pulse” of every employee on a 10-point scale—an indication of how frazzled or relaxed the company was. The combined pulse rate climbed as the offering approached and employees

(many of them shareholders) eagerly awaited the market's valuation of the company. But after the offering was completed, the pulse rate slowed, alerting Felton to the need to fight complacency. A strong inverse correlation exists, she has found, between the pulse rate and the Indus stock price. Even a slight decline in the stock price creates a measurable anxiety that pressures people into intensifying their work habits. "This is not a good thing for Indus," she warned Felton. He emphasized to the staff that it is foolish to fixate on short-term price fluctuations. [Petzinger, 1997]

USE TEAMS IN ANY CASE

Jon R. Katzenbach and Douglas K. Smith, writing on "The Discipline of Teams," found that there is a basic discipline that makes teams work. They also found that teams and good performance are inseparable—you cannot have one without the other. Groups do not become teams simply because that is what someone calls them. The entire work force of any large and complex organization is never a team.

Katzenbach and Smith distinguish between teams and other forms of working groups. That distinction turns on performance results. A working group's performance is a function of what its members do as individuals. The best working groups come together to share information, perspectives, and insights; to make decisions that help each person do his or her job better; and to reinforce individual performance standards. A team's performance includes both individual results and what the authors call "collective work-products." Teams rely on more than group discussion, debate, and decision; and on more than sharing information and best-practice performance standards. Teams produce discrete work-products through the collective contributions of their members—a team is more than the sum of its parts. "A team is a small number of people with complementary skills who are committed to a common purpose, set of performance goals, and approach for which they hold themselves mutually accountable."

Performance goals are compelling. They are symbols of accomplishment that motivate and energize. Positive reinforcement works as well in a team context as elsewhere—"Giving out gold stars." There are many ways to recognize and reward team performance beyond direct compensation, from having a senior executive speak directly to the team about the urgency of its mission to using awards to recognize contributions. Ultimately, however, the satisfaction in its own performance becomes the team's most cherished reward. [Katzenbach and Smith]

Lawrence Rothstein finds that self-managed teams are capable of making and implementing their decisions, and they are held accountable for results. Teams pass through several stages before they can manage themselves. A team begins simply as a collection of individuals. It must learn how to work together, make decisions, resolve conflicts, and delegate responsibilities. In the next stage, as team effort starts to pay off, members usually become excited and enthusiastic. Nevertheless, the team's identity remains in an

embryonic phase. If the team runs into obstacles, members can quickly become disillusioned. But with proper guidance and support, the team moves on to self-management. At this stage, team members support and encourage one another, believe fully in their recommendations, work together to overcome obstacles, and effectively make decisions and take action. [Rothstein]

Team Incentives

The heavy demands on team members coupled with insufficient team compensation results in dissatisfaction at lower levels of the organization. As the team concept spreads, organizations are finding that their reward systems—pay, promotions, career paths—don't support it. The satisfaction one gets from working with others to achieve common goals is, of course, one of the intrinsic rewards of teamwork. However, this satisfaction should be reinforced with external rewards. Those rewards can range from special lunches and ceremonies to acknowledge extraordinary effort, and extra pay for learning new skills, to gain-sharing programs in which all employees receive bonuses when the company reaches preset goals. [O'Dell]

The life span of a team, its purpose, and the jobs of its members all affect the choice of rewards. For a temporary team, sometimes simple public recognition of a task force's effort through praise in memos to top management or mention in the company newsletter is enough. But stronger incentives are needed for teams with a longer life, and for employee-involvement and problem-solving groups. Such incentives could include adopting the team's suggestion system or rewarding a successful problem-solving team with its own budget to implement ideas. At Tennessee Eastman, a natural work group that solves a significant problem earns praise from several levels of management, as determined by a formal schedule of rewards, and the members are entitled to a photo of their group with the Eastman Kodak race car. When a group attains a significant milestone or quality level, the members are receive a catered lunch. [O'Dell]

Most merit plans are a zero-sum game, pitting employees against one another for a share of the pool of merit pay—hardly designed to promote teamwork. Performance appraisal is a notoriously ineffective and generally disliked basis for rewarding employees. [O'Dell]

While people like to be a part of a good team, often that is not enough. Organizations need a way to recognize and reward outstanding individual performance, to create heroes for others to emulate. All of the issues and options on rewarding teamwork frustrate some managers (well-paid themselves) who would like to believe that people will forget about money and work for the love of excellence. They point to the Japanese as models for the strong, self-motivated workers they want. The Japanese encourage employees to identify with the company's results. This approach reinforces teamwork and security within the folds of the mother organization, and the employees' well-founded trust that when their organization prospers, they will, too. [O'Dell]

As firms move toward team-based operations at all levels, they need reward systems that mirror and support this way of working, rather than thwart it.

- First, examine the performance-appraisal and merit-pay systems to make sure that they are not undermining teamwork. Include measures of cooperation within and across teams, as well as other quality indicators.
- Second, ensure that rewards fit the purpose, authority, and life span of a team.
- Next, pay attention to career-path issues as well as to pay.
- Then, try to design systems, such as gain-sharing, that reward cooperation among teams. Avoid “haves and have-nots”—such as having a team with no special rewards working side-by-side with one that does.
- Finally, it is a pipe dream to believe that rewards of any kind will eliminate the hassles of managing people. [O’Dell]

Team Recognition in a TQM Environment

The use of teams in total quality management (TQM) organizations is common. However, issues of evaluating teams versus individuals, and of ways to establish the reward system, must be resolved. Stephen Knouse, author of *The Reward and Recognition Process in Total Quality Management*, discusses these topics. Number 12 of Deming’s 14 quality management points is to “Remove barriers that rob people of pride of work.” In addition to poor training, faulty machines, and low-quality raw materials, pay-for-performance mechanisms focus employees on achieving individual pay raises while simultaneously diverting them from work quality. [7] The third of Deming’s Seven Deadly Diseases is *Merit rating and evaluation of individual performance*. One of the most controversial of Deming’s ideas is that the U.S. emphasis on individual performance appraisal, merit pay, management by objectives (MBO), and pay-for-performance is bad because these devices emphasize individual gain at the expense of attaining the firm’s goals. Individuals are rewarded for maintaining the system rather than trying to improve it. The emphasis is on quantity produced rather than quality. Further, Deming believed that fair ratings are impossible because of supervisor biases, worker competition, and organizational politics. In this environment, short-term thinking proliferates and long-term planning suffers. [8]

Deming advocated that everyone in the group should be paid the same. Others advocate more of a middle ground. Individual workers should be evaluated on quality accomplishments and contribution to the team. Teams should be evaluated on quality improvements and teamwork. Managers should be evaluated on leadership of the quality effort and customer satisfaction.

The functions of reward are to improve TQM behaviors, improve TQM culture, and be a visible statement of organizational values. [18]

The principles for an effective reward system are the following:

- The Reward Is Valued—cash, plaques, name in company newsletter, public recognition in award ceremonies.
- The System Is Simple to Understand.
- Performance Standards Are Within the Control of the Team—able to be reached.
- Supervisors Are Motivated to Maintain the System.
- Employees Have Input into Installing the System.
- There Is Open Communication. [19]

Knouse describes several types of rewards. [20] Cash awards can be in the form of bonuses, gain-sharing, or profit sharing. Gain-sharing is more focused on having specific TQM teams make improvement suggestions for which they are then allowed a percentage of the resulting cost savings. Not all teams participate. Profit sharing, on the other hand, is more general. The company gives percentage shares of profits to all individuals or teams equally. Different types of nonmonetary rewards—symbols (decals and signs), things people use (pens, calculators, tie clasps, clocks), and other comparable forms of recognition—are often used.

Judith Mower, a human resources expert, suggests that team rewards—where all team members receive rewards—produce the best team performance. She suggests that rewards supporting rather than detracting from intrinsic motivation should be considered, that they should be given throughout a project's life, and that the most effective reward is one that the team invents for itself.

The process of giving team rewards is generally implemented when TQM has become firmly implanted in the organization. At that point teams are functioning well in problem solving and continuous process improvement. During TQM implementation, the organizational reward structure may progress through many phases—first, traditional pay for performance, such as merit pay; then, individual and key contributor incentives; next, gain-sharing and skill-based pay; and finally, team rewards.

Awards are sometimes given to teams in the areas of Excellence, Initiative, Effort, or Teamwork. Recognition may include news articles, family outings, team presentations, conference trips, or items with the team logo. [20] Knouse summarizes issues of recognition as follows:

Functions of Recognition

- Indicator of achievement
- Feedback
- Shows the organization's appreciation for effort [26]

Principles for Recognition Systems

- Recognition should be immediate
- Recognition should be personal
- Recognition is not compensation
- Employees should believe recognition is not based on luck
- Recognition systems should not create winners and losers
- Recognition should be given for efforts, not just attainments
- Employees should participate in recognition programs [27]

Types of recognition

- Company Awards
- Team-Managed Awards
- Customer Awards [28]

The reward and recognition team is a permanent quality team established by the steering committee to manage the reward and recognition process. [130] The purpose of the reward and recognition team should be continuous improvement of the reward and recognition process. The team's membership should consist of all the major stakeholders. Its duties are to analyze and monitor the reward and recognition process, identify opportunities for improvement and problem areas, and benchmark other organizations.

Possible barriers to effective reward and recognition include time, cost, cultural resistance to change, timing of change, merging of different cultures, hokey recognition programs, and rewarding TQM practices rather than customer needs. [139]

Individual Rewards Within Teams

Heneman and von Hippel find that problems occur when the system rewards low and high performers in the team equally. The high performers eventually withdraw. The authors discuss using multiple sources for ratings (team members, customers, and individuals) and group-based reward systems, such as team-based pay, gain-sharing, and goal-sharing. The purpose of having individual rewards within teams is to reduce social loafing or free riders, so that high performers will not withdraw from the group. Another reason why some may withdraw is that they feel that their individual contributions do not really affect the group's performance. Peer pressure may resolve some of the problems but may also create animosity.

The authors recommend rewarding employees for behaviors consistent with the team's norms. A team mental model is a shared set of values and beliefs. Individual performance is to be defined consistent with the team mental model. Team-based merit pay provides rewards on the basis of an individual's contributions to the team. Team leaders and members rate each member's contribution to the attainment of team goals, effectiveness of communication, cooperation, and attendance and timeliness at team meetings.

Multiple evaluators are to be used: job incumbents, team leaders, and peers. Team leaders should coordinate the process by gathering the ratings, weighting the information, and providing feedback, including pay increase decisions. The system should give greater weight to ratings assigned by individuals with a better understanding of the team mental model and more opportunity to see the job incumbent perform.

This system will provide pay raises to those who contribute the most to the team. Using team-based merit pay can serve as a transition toward the new pay based on employee empowerment. Team-based pay increases, developed by and evaluated with the help of employees, supplement increases based on traditional top-down ratings. Another approach couples team-based merit pay increases with group-based pay plans such as gain-sharing and goal-sharing.

Unfortunately, group-based pay plans sometimes create the opportunity for social loafing and a place for free riders to hide. Providing rewards for individual contributions to the team addresses this problem by increasing motivation for improved teamwork among all team members. [Heneman & von Hippel]

EMPLOYEE CONTROL—IMPORTANT FOR ACCEPTANCE

Petzinger finds it amazing just how much employees know about their firm's operation. Equally amazing is the sense of belonging they experience at the rare companies in

which management acts on their cues. Mere symbols—a suggestion box, say, or special parking privileges for the employee of the month—accomplish nothing. Getting real ideas from employees demands buoyantly open-minded leadership and the eradication of intimidation. At Staples, Biering ordered supervisors out of their desks along the windows and scattered them among the cubicles of the employees they supervised. Bosses were told to conduct weekly meetings. An unusual recognition program was created in which peers nominate peers for exceptional customer service, a program whose structure encourages employees to seek out the best in one another. The prizes include trips to out-of-state Staples facilities where recipients study how work is conducted elsewhere in the company. Interestingly enough, it was employees themselves who suggested making this a reward. [Petzinger, 1996]

J.M. Smucker Co., the Ohio-based maker of jams and jellies, enlisted a team of 140 employees—7 percent of its work force—to devote nearly 50 percent of their time to a major strategy exercise for more than 6 months. “Instead of having just 12 minds working it, we really used the team of 140 as ambassadors to solicit input from all 2,000 employees,” says President Richard K. Smucker. “It gave us a broader perspective, and it brought to the surface a lot of people with special talents.” The company, which has struggled to grow in a mature market, now has a dozen viable initiatives that could double its \$635 million revenues over the next 5 years. [Byrne]

Finland’s Nokia Group had been exploding at a rate of 70 percent a year in the booming telecommunications business when it chose to involve 250 employees in a strategic review early last year. “By engaging more people, the ability to implement strategy becomes more viable,” says Chris Jackson, head of strategy development at Nokia. “We won a high degree of commitment by the process, and we ended up with lots of options we hadn’t looked at in the past.” [Byrne]

The manager of Johnsonville Sausage, Ralph Stayer, reports on efforts to let workers lead. First, the firm eliminated the annual across-the-board raise and substituted a pay-for-responsibility system. As people took on new duties—budgeting, for instance, or training—they earned additional base income. Second, the company instituted what it called a “company performance share,” a fixed percentage of pretax profits to be divided equally every 6 months among the employees. Above and beyond this are individual shares based on a performance-appraisal system designed and administered by a volunteer team of line production workers from various departments.

The firm set up an educational allowance for each person, to be used however the individual saw fit. In the beginning, some took cooking or sewing classes; a few took flying lessons. Over time, however, more and more of the employees focused on job-related training. Today more than 65 percent of all the people at Johnsonville are involved in some type of formal education.

Team leaders were supposed to function as communication links; however, they began to function like supervisors. The structure changed, but mindsets didn't. It was harder to alter people's expectations than Stayer had realized.

“Ralph Stayer's Guide to Improving Performance”

1. People want to be great. If they aren't, it's because management won't let them be.
2. Performance begins with each individual's expectations. Influence what people expect and you influence how people perform.
3. Expectations are driven partly by goals, vision, symbols, semantics, and partly by the context in which people work, that is by such things as compensation systems, production practices, and decision-making structures.
4. The actions of managers shape expectations.
5. Learning is a process, not a goal. Each new insight creates a new layer of potential insights.
6. The organization's results reflect me and my performance. [Stayer]

Researchers have found that most successful agencies take 5 to 10 years to develop and implement a truly sound performance-based reward system. The Oregon Department of Transportation, for example, allowed lower level employees to help design the measures they would have to perform under and then empowered them with broad flexibility in meeting performance “milestones.” [Riggle]

CONCLUSIONS

Intrinsic motivation to reach the organization's goals is the preferred alternative. Its importance has been widely noted since the 1950s. Native curiosity, pride, and desire for craftsmanship are likely to be widespread in the workplace. Intrinsic motivation comes from the belief that the work is critical, is interesting, is challenging, and is within the employee's control. Intrinsic motivation can be enhanced by designing interesting jobs or by communicating to employees the importance of their jobs. For most of the HHS acquisition community, the inherent importance of their work in meeting mission goals—which are themselves widely regarded as important—should make this type of communication easier. The employees should feel that they have a substantial measure of control over their jobs. Recent efforts to increase the authority of the contracting officer and to empower employees in general should help develop and expand the feeling of job control and autonomy. Intrinsic motivation is enhanced by interesting work, by the type of work, by learning new skills, by using one's talents fully, and by making decisions.

People are unhappy with work that lacks variety or challenge, has conflicts with co-workers or supervisors, or has too much pressure.

For those who believe in the absolute superiority of intrinsic motivation and rewards, any attempt to provide extrinsic motivation and rewards is doomed to fail and may even cause harm. They believe that employees and managers will focus only on the extrinsic reward (e.g., achievement award) and will try to obtain it by doing the least amount of work at the lowest quality necessary to obtain it, driving out any intrinsic motivation that may have existed. Giving awards devalues the significance of the work itself—for instance, giving time off as a reward indicates that being away from the job is preferred to being on the job. Presenting awards in public ceremonies highlights the larger number of “losers” who did not receive the award, further demoralizing the work force. Kohn found that training and goal-setting programs had a far greater impact on productivity than did pay-for-performance plans.

For praise to be effective, it should increase self-determination by helping employees to have an increased sense of control, and should increase intrinsic motivation by creating the conditions for workers to become more deeply involved. In some situations in which people were unwilling to participate in teams, most stayed away because they were “skeptical of the real importance of the program to the organization.” A reward system often allows managers to overlook the reason for the existence of problems in the first place. Why didn’t the employees naturally carry out the task in the manner or to the degree desired? If the reason can be discerned and corrected, the work will be accomplished through intrinsic motivation, and extrinsic rewards will not be necessary.

Some authors have concentrated entirely on intrinsic motivation and rewards. Others have noted the superiority of such motivators but have conceded the necessity for extrinsic rewards as well. The extrinsic awards most closely linked to intrinsic motivation are those related to training or job-related educational opportunities. Being selected to work on a team that is empowered to actually change the working environment can be a particularly fitting and effective form of recognition. But employees will be reluctant to spend time on efforts that they believe will have no effect.

Many other extrinsic rewards have been devised. Some, such as profit sharing, are inapplicable to the federal work force, but most others are made available to federal managers by statute and OPM regulations. Team members or individual employees may receive bonuses for achieving outstanding results. Team logo items or plaques, pins, or celebrations may also be used. The appendix provides several examples.

Most authors say that workers should be organized into teams and treated as equal members of the team. The team members should determine their goals and methods for reaching those goals. Deming and his TQM followers are most emphatic about the primacy of teams and stress that evaluations or rewards (if used at all) must be on a team-wide basis. Continuing this approach, teams should not be placed in competition with

each other. Since pay—once an acceptable level has been reached—is not a motivator, jobs should be structured to pay well (as federal government jobs often are), and pay should no longer be an item of concern to either employees or managers.

Contrary to Deming and others, some authors believe that individuals on teams must be eligible for individual rewards; otherwise, high performers will be discouraged by free riders and not put forth their full efforts.

IMPLEMENTATION

We recommend that maximum effort be expended on enhancing the Department's ability to motivate its work force intrinsically. Jobs should be structured to be interesting, important, challenging, and within the control of the workers. The principle that the employees in the contracting offices are the government's business people or business brokers—expert in market research, contract competition, performance-based work statements, negotiation, cost/price analysis, acquisition streamlining and innovation, and monitoring contractor performance—should be stressed by managers at all levels, at every opportunity. The staff's concerns with collaboration, job content, and choice on the job must be continually addressed. The theories and studies on motivation over the past 50 years should be fully taken into account. In particular, managers should

- look for problems that need to be solved and help people solve them (don't put employees under surveillance);
- attend seriously and respectfully to the concerns of workers and try to imagine how various situations look from their points of view;
- provide plenty of feedback (people need a chance to reflect on what they are doing right, to learn what needs improvement, and to discuss how to change);
- avoid as much as possible the use of extrinsic motivators, control, exhortation, or power;
- link any extrinsic rewards and recognition to the Acquisition Balanced Scorecard (after it has been fully developed and accepted as a comprehensive, integrated measurement system), to help achieve the organization's critical goals;
- give any type of extrinsic reward as a surprise and apply it equally to everyone on the team;

relate any extrinsic rewards to the task—e.g., special training (in team-building and in the subject area), a trip to visit the best-in-class operation, or a budget to implement the team's solutions;

- let the team decide the type of reward and recognition that should be used;
- form teams whenever possible (the ability to produce superior results through a team effort, vice a collection of individual efforts, is widely accepted) and ensure that they should understand how their efforts fit into the Department's mission;
- avoid actions that appear to put employees who need to work together in competition with each other (e.g., any extrinsic rewards should be presented individually to the winner, avoiding the appearance of recognizing a few at the expense of many "losers"); and
- use employee teams to devise a system of rewards in accordance with the guidance provided by OMB, OPM, HHS, and management, as an effective low-risk implementation strategy.

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APPENDIX: IMPLEMENTATION GUIDANCE— EXAMPLES FROM THE LITERATURE

This appendix summarizes a variety of extrinsic reward systems that have been used. Most of the systems were working well when their descriptions were published. This section of the appendix organizes the extrinsic reward systems by category. While some of them would apply to group reward and recognition for a short-term team working on a special project, most discuss a general, overall pay system. The appendix has five sections—overview of incentive pay, types of incentive pay, nonmonetary awards, monetary awards, and general pay systems.

Overview of Incentive Pay

Watson Wyatt's 1996 survey, based on responses from 694 firms with a total of more than 5 million employees, found that 29 percent of those firms are now using incentive pay plans for hourly workers and non-management professionals. That is about three times the figure of a decade ago and, according to McAdams, represents the fastest-growing portion of the typical American paycheck. The portion of a worker's pay tied to performance measures varies widely from firm to firm, but according to a survey by the American Compensation Association, the average bonus paid last year under these plans was \$1,175 per worker—representing about 5 percent of total pay. For management employees, both the amounts and the percentages tend to be considerably higher. As for the companies themselves, they consider the incentive pay as money well spent, attributing a gain of \$2.60 in pretax profit for every \$1 paid in performance bonuses.

Approximate percentage of companies giving bonuses to:

	Hourly employees	Professional employees	Middle managers	Top managers
Group incentives	29%	34%	31%	24%
Discretionary bonuses	20%	32%	49%	56%
Stock options	4%	28%	28%	47%
Profit sharing	22%	23%	23%	23%
Spot recognition awards	50%	49%	49%	32%

Source: Steven Pearlstein, *Trendlines Incentives and Performance* "The Quiet Revolution: Linking Pay to the Bottom Line," *Washington Post*, No. 352, 21 November 1996, p. D1.

About one-third of companies have now implemented incentive pay plans tied to measures of individual and group performance, up from about 10 percent a decade ago.

Under the Mobil plan, devised with the help of Harvard Business School Professor Robert Kaplan, nonunion employees will see their base pay decline by as much as 10 percent, after adjustment for inflation, in the coming years. At the same time, they will be able to earn a bonus of up to 30 percent of pay based on a formula tied to the company's financial performance, the operational performance of their particular business unit, and the gains of their particular team or work group.

For any Mobil employee, this may mean that as many as 20 different measures go into calculating the annual performance bonus. And for each measure, the company performs the extra step of assigning a weight reflecting its relative importance and the "degree of difficulty" in achieving the goals established each year in each category. [Similarly, once the HHS balanced scorecard measures are fully developed and accepted as a comprehensive, integrated measurement system, they may be used to devise incentives.] In theory, an employee with a "below average" score would wind up with lower base pay and no bonus; for an "average" performance, the plan would provide a bonus that would merely make up for the lower base pay. Extraordinary performance—by an employee, the team, the division, and the corporation—could provide even the lowest level employee a bonus of up to 30 percent.

Steve Gross, a compensation expert with the Hay Group in Philadelphia, warns that if top managers don't constantly evaluate and change the items on the plans to reflect new business realities and strategies, incentives can lose their effect as employees begin to regard their bonuses as entitlements. [Pearlstein]

Types of Incentive Pay

ECS introduced its annual Survey of Variable Pay Programs in 1990. The information in this summary came from the results of the survey's third edition and represents data from a total of 477 plans. [See box for definition of plans.] ECS looked at 13 possible goals and at the effectiveness of each plan in meeting those goals, on a 1-to-5 (high) scale. Those that could be identified and their overall average scores are as follows:

- Increase productivity (most common goal and highest overall score = 3.4)
- Reward achievement of specific financial goals = 3.1
- More closely link pay to performance = 3.4
- Provide an effective recruiting device = 3.0 to 3.3

DEFINITIONS OF SURVEYED PLAN TYPES

For purposes of the survey, the eight types of plans surveyed were defined as follows:

ANNUAL INCENTIVE OR BONUS. These awards are based on the overall performance of the company and/or operating unit. Award size is also typically based on both some measurement of individual performance and the salary/salary grade of the individual recipient. (For profit-based plans that pay uniform awards to all eligible employees, please see definition of Current Cash Profit Sharing.)

SMALL GROUP INCENTIVE. This type of program typically provides for uniform awards to all members of a formally established group on the basis of their collective achievement of a predetermined objective. These plans generally are adopted to foster teamwork and typically are tied to a project of short or intermediate duration. One example of a typical application of this type of plan would be its use in the introduction of a new product.

INDIVIDUAL INCENTIVE. This type of program customizes both the performance criteria and the size of award to the individual employee and/or position. Both the performance standard and the potential payout are communicated to the employee before the start of the performance period. When these plans are adopted for nonmanagement employees, the performance criteria typically are related only to productivity and quality. When adopted for management employees, the performance standard usually encompasses some measure of the company's and/or operating unit's overall performance. The plan must entail the setting of specific objectives for individual employees/positions to be considered an individual incentive plan.

GAIN-SHARING. These plans are designed to measure the productivity of a unit and to share the value of any resulting productivity gains and/or cost savings between the company and participating employees. The gains generally are based on a predetermined formula and are shared uniformly among all covered employees. Three standard types of gain-sharing programs currently exist: Scanlon, Improshare, and Rucker. Most current plans, however, are customized and often borrow features from the three standard plans.

SKILL-/KNOWLEDGE-BASED PAY. Such programs are designed to reward nonmanagement employees for acquiring new or improving current job related skills. The system employs a series of salary steps for each covered position, with movement to the next higher step based on the acquisition of a new or enhanced skill or body of knowledge. Plans of this type typically cover professional and technical employees whose acquisition of multiple skills is necessary to the organization. They have recently been employed for nonexempt personnel, typically in production/processing environments where cross-training is desirable.

SPOT AWARDS. Such awards may also be called Instant Incentive or Recognition Awards. These are project- or task-oriented awards for which the recipient is nominated by either the supervisor or peers after completion of the undertaking being rewarded. The recipients may be either individuals or members of a team. Awards generally are discretionary, paid from a preestablished pool, and may be in the form of cash, merchandise, or symbolic awards such as plaques, certificates, or other status symbols. This category encompasses a wide variety of plans and programs, and ranges from substantial cash awards for outstanding achievements to symbolic recognition for attendance at training programs.

KEY CONTRIBUTOR/KEY CONTRIBUTION. These are cash or stock grants designed to retain key personnel by linking payout to their continued employment for a specified period of time. These programs typically involve the use of restricted cash or stock grants (to employees who normally would not be eligible for such awards) whereby the employee gains irrevocable rights only if some specified time period of continued employment is achieved.

CURRENT CASH PROFIT SHARING. Awards here are based on the overall financial performance of the company. Generally, awards are uniform in size for all eligible employees. Awards must be available (fully or in part) for cash distribution to eligible employees. Plans may be qualified or nonqualified. These are not plans that are designed to function largely as retirement/capital accumulation plans. (For profit-based plans

that vary awards on the basis of performance or salary/salary grade, please see definition of Annual Incentive or Bonus.)

Source: Eric D. Zitaner, "Variable Pay Programs: Tracking Their Direction," *Compensation & Benefits Review*, v 24, n 6, November/December 1992, pp. 8-16.

Foster healthy competition

Foster teamwork

Shift costs from fixed to variable = 3.3

Reduce cost = 2.7

Communicate business objectives = 3.3

Reward participation/empowerment in organizational culture = 3.2

Retain employees = 3.2

Encourage turnover of lowest-rated employees = 1.9 (by far the lowest overall score)

The effectiveness of three plans (gain-sharing, small-group incentive, and skill-/knowledge-based) are discussed in the survey.

GAIN-SHARING PLANS

The 92.3 percent of participants reporting "increase productivity" as a goal of their gain-sharing plan made this the most commonly reported goal for any of the eight plan types surveyed, and the 3.7 effectiveness rating for achieving this goal, although equaled by small group incentives, was not surpassed by any other plan.

For four out of five goals, the effectiveness ratings of gain-sharing plans exceeded the overall effectiveness index, with the 3.9 index recorded for "more closely link pay to performance" equaling the highest effectiveness rating achieved in the analyses.

Interestingly, because many gain-sharing plans are based on reductions in the average cost of production per unit, "cost reduction" did not appear as one of the five most frequently reported goals of gain-sharing plans. It was, however, the sixth most commonly reported goal of these plans and achieved an effectiveness index of 3.2, 0.5 points above the overall rating.

SMALL-GROUP INCENTIVE PLANS

- Four of the five most frequently reported goals for small-group incentive plans were reported by 60 percent or more of companies. For all of these goals, the plan-specific effectiveness index exceeded the overall effectiveness index.
- “Increase productivity,” an objective identified by four of five companies with small group plans, achieved an effectiveness index of 3.7, tying gain-sharing plans for the highest plan-specific effectiveness rating for this goal.
- No other plan scored as well for the goal “communicate business objectives,” with these plans achieving a 3.7 effectiveness index, 0.4 points above the overall index.

SKILL-/KNOWLEDGE-BASED PAY PLANS

Skill-/knowledge-based pay plans were generally more successful than the norm for four of the five most commonly reported objectives of these plans. For the remaining objective, “provide an effective recruiting device,” the effectiveness index of these plans fell considerably short of the other plan types (2.6 as compared with 3.0 overall).

For the objective “reward participation/empowerment in organizational culture,” a feature common to almost all of the growing number of total quality management programs being adopted, this type of plan scored higher than any other, with an effectiveness index of 3.7, 0.5 points above the overall average. [Zitner]

Nonmonetary Awards

NON-TRADITIONAL RECOGNITION

Some companies are using non-traditional approaches to recognition. FirstMerit, a Cleveland bank, has the FirstHonors program, which includes a tent with dinner, dancing, and a private viewing of the Rock and Roll Hall of Fame, plus three shares of stock worth about \$90. A recent Towers Perrin survey found that more than half of the 750 U.S. companies surveyed had broad-based recognition programs. Cash awards remain prevalent, but publicity-oriented rewards are a way to create more role models for other workers, the survey found. [McEnaney]

At its core, the FirstHonors program encourages employees to recognize one another for good work throughout the year. Every employee is given a pad of FirstHonors thank-you notes and urged to write a complimentary message to those who help them get the job done. The purpose is to improve relationships among employees and to let workers publicly display their accolades. The notes can be seen hanging throughout

FirstMerit cubicles and walls. “I don’t think enough of this happens in the workplace,” said Cochran, as he flipped through his own stack of thank-you notes. “It makes a difference in how you approach your work.” [McEnaney]

Employees who want an invitation to the annual gala are nominated throughout the year. Sales personnel, including loan officers, bank managers, and private banking managers, must meet certain financial goals. Other employees, including tellers, secretarial and support staffs, and operations people, are nominated for service awards by their peers and supervisors. Employees say the program is a plus. [McEnaney]

KeyCorp’s Applause program employs a similar strategy. The Cleveland bank company’s 30,000 workers not only are encouraged to share thank-you notes, but managers can dole out gift certificates to a catalogue of goodies ranging from beach chairs to golf bags to clocks, all emblazoned with the KeyCorp logo. A Command Performance award is handed out to the company’s top 10 employees, each of whom gets a 3-day stay at the Ritz-Carlton in Cleveland and a \$1,500 cash bonus. [McEnaney]

Still, some experts warn that there are pitfalls to such programs. Consultant Dick Thomas of the Boston Consulting Group suggests that managers ask employees what they might like—sit in your chair for a week, a bonus, take off a week. [McEnaney]

The key to success in any reward program, experts say, is consistency. “Recognition should be ongoing and it should be consistent,” said Jacques Murphy, senior vice president of the Gallup Organization. “You need to build a culture of it that when somebody goes out of the way, you need to have an avenue to say, ‘Good job.’” [McEnaney]

FLEX TIME

The information systems unit of St. Paul Company, a big insurer not known as a high-paying employer, has near zero turnover among information systems workers, compared with roughly 15 percent to 20 percent elsewhere. All staff employees have access to alternative schedules, providing they can show that the change would work well for bosses, customers, and co-workers. One programmer told a headhunter recently that any new employer would have to offer him \$10,000 a year more to compensate for the loss of a compressed work week.

Some typical problems with flexible time systems, and some solutions, are these:

The entitlement mentality: Some employees assumed in the past that flexibility gave them the right, forever, to work the schedule of their choice. So a volunteer employee committee, working with Paul Rupert, a flexibility consultant with Boston-based Work/Family Directions, wrote a new plan saying employees have to “give flexibility to get flexibility.” Employees asked, ‘Now you’re saying, more is expected of me?’ “Our answer is, ‘Yes, more is expected of you.’”

- The ghost-town syndrome: The committee ended core days, so more are taking midweek days off.
- The fairness problem: The answer was a work arrangement application form that asks how any proposed change will help meet customer needs.
- Manager overload: Solved by using an on-line, time-off tracking system based on hours worked that reconciles schedules with the company benefits plan.
- Controlling poor performers: Bosses have found that having the new application form makes it easy to say “no” and apply pressure to “shape up.”

In 1997, St. Paul will roll out the plan to all of its 9,000 U.S. employees. [WSJ, 11/13/96]

PRODUCTIVITY TRAINING

In fields like computer programming, an 8-to-1 difference between the productivity of stars and that of average workers has been reported. As one of the Bell Labs executives observed, “Ten to fifteen percent of our scientists and engineers are stars, while the vast majority are simply good, solid middle performers.” The real differences turn up in the strategic ways top performers do their jobs. Specific work strategies like taking initiative and networking make for star performance and are trainable.

The Bell engineers identified nine work strategies that do make a difference (in order of importance): taking initiative, networking, self-management, teamwork effectiveness, leadership, followership, perspective, show-and-tell, and organizational savvy. They then had training in each area. [Kelley and Caplan]

ATTENDANCE AWARDS

A newsletter for employees of law firm Montgomery McCracken Walker & Rhoads, Philadelphia, honors office workers with perfect attendance as well as those with “distinguished attendance,” who missed less than two days. [WSJ, 7/25/96]

Some airlines pay their employees not to call in sick. Northwest Airlines awards a Corvette, Ford Explorer, or \$18,000 cash to eligible employees whose names are picked in a drawing. United Airlines offered prize-winning workers Jeeps last year, but “everyone opted for the cash.” But some unions complain that the incentives are unfair to legitimately ill workers. “People who are sick as a dog crawl on board hoping they’ll win a car.” [WSJ, 9/17/96]

OTHER ISSUES

Sarah Cooper Associates, a Washington, D.C., event planner, keeps its employees working overtime by offering workers the use of an errand-runner one day a week. [WSJ, 10/29/96]

A danger in using nontraditional rewards is illustrated by Dogbert, who discusses the use of such gifts as logo-bearing T-shirts and belt buckles: "Rewards that have actual value, such as stock options or bonuses" can send "the wrong message. Employees might start thinking of themselves as merely paid help instead of the belt-buckle-owning 'family' you want them to be." [Farnham]

Monetary Awards

GOVERNMENT AGENCIES

One of the eight government agencies selected to pursue performance-based operations, the Defense Commissary Agency, has announced setting goals and offering cash performance rewards for employees who meet and exceed the goals. In the past, managers have been able to offer time off rewards for performance—e.g., a day off whenever a cashier checks \$10,000 in groceries. Commissaries and their departments (produce, meat, and grocery) will compete against each other within their regions. A quarterly cash bonus of \$250 will be given to the department that shows the highest percentage increase in sales. "The awards go to the managers of winning departments and they have the option of splitting it with department employees. Yearly awards for overall performance amount to \$1,000.... The criteria for receiving an incentive award is largely based on percentage of increase in sales, but other factors are also considered. The region director, deputy director and zone managers will make the final decisions." [DCA]

As another example, the Veterans Affairs Medical Center in Philadelphia, has a number of individual awards and several group awards.¹ Groups may receive "Suggestion Awards" for submitting an idea that is adopted by management and that directly contributes to economy or efficiency or directly increases the effectiveness of government programs and missions. A "Special Contribution Award" may be granted to a group on the basis of a one-time contribution that was not necessarily a part of the performance plan but was connected with or related to official employment and was beneficial to the government. Examples might be creative efforts that result in an important contribution to the efficiency or economy of government operations, or attainment of a predetermined production or management goal within an announced timeframe. Awards can

¹ Beginning in FY97, OPM permits group performance evaluations in place of individual performance evaluations. Thus, team performance and awards are emphasized more than individual performance and rewards.

range from \$25 to \$1,000. A final example is the “Doughboy Award,” which recognizes a group of employees that performs in an exemplary manner under difficult or trying circumstances—in effect recognizing the group that succeeds “in the trenches.” [DVA]

FINANCIAL INCENTIVES

Many corporations (68 percent) now offer financial incentives—bonuses, stock options, and others—to all of their salaried employees, up from 47 percent in 1990. Hannon finds that pay-for-performance plans are good business. The most widely used type of variable pay is the bonus, awarded by 24 percent of companies. Stock option plans have become prevalent. Companies reward employees who have acquired new professional skills—pay-for-knowledge plans. [Hannon]

Three-quarters of large and medium-sized companies use bonuses, team incentives, or stock ownership to boost productivity and profitability. “Some 85 percent to 90 percent of those companies will have variable-pay programs within the next five to seven years.” Firms now pay out far more in incentive compensation than in salary increases. This year, bonuses will average 6.3 percent of base salary. The average raise, on the other hand, will barely top inflation at 4.5 percent, down slightly from 4.6 percent in 1983. Twenty-one percent of U.S. companies will give bonuses only—and no annual raise—up from 14 percent in 1983. Seventy percent of companies rated their corporate profit-sharing plans as successful, on the basis of standards such as keeping costs down and boosting productivity. Some 68 percent of companies surveyed rated their small-group incentives as successful, and a full 84 percent indicated that their individual incentives were paying off. Pay-for-performance lets women compete on a level playing field.” [Hannon]

Again, the most widely used type of variable pay is the old-fashioned bonus, awarded by 24 percent of companies. What’s new is that more and more employees are allowed to participate, and there is an increasing tendency of employers to combine individual, group, and companywide programs into one giant bonus plan. Initially, two main measures are used: the performance of the entire company and the results of each person’s business unit. [Hannon]

Now a worker can boost her pay by as much as 25 percent, provided her division achieves the goals set by a committee of top managers: slashing inventories, boosting operating earnings, and bringing more new products to market. About 70 percent of her bonus is tied to whether her unit is successful. The remaining 30 percent of her bonus depends solely on her individual success, judged by a variety of factors ranging from her skills as a manager to her success in meeting financial targets. In this period she expects a bonus ranging from 10 percent to 15 percent of her base salary.

Bonuses can range from 15 percent of base pay at the \$45,000 level to 20 percent for employees earning \$100,000. Last year, AT&T, unlike Scott, started linking the biggest

piece of its bonus plan to overall corporate performance. The reason: to encourage different business sectors to pull together toward a common goal. In fact, about one-third of a manager's bonus can depend on corporate results.

Nearly one-quarter of the companies now offer stock option plans, compared with 19 percent in 1990. Such plans are increasingly being pushed down the corporate ladder, both as a low-cost way to reward employees for a job well done and as an incentive for staffers to stick with the company. This arrangement allows employees who have been store managers, pharmacists, or managers in the corporate offices for at least 2 years to buy stock equal to a certain percentage of their salaries once every 4 years. (The maximum = 10 percent, 2-year employees = 7.5 percent, new = 5 percent, new next year 2.5 percent; cycle starts over in 1996 and all are eligible.) The idea is to reward people who have worked there the longest with the most stock. [Hannon]

The Newest Pay Plans

One method is to pay for acquiring new professional skills—pay-for-knowledge plans. Suppose an employee switches from marketing to sales training to customer service, or even to human resources, over the course of a career—with each new area, there is a corresponding jump in salary. Some 10 percent of the firms surveyed in a Conference Board study already have the program, and another 7 percent are considering one, up from 4 percent that were considering such a system in 1990. [Hannon]

Six percent of the businesses surveyed have implemented broadbanding (a pay system with a few broad categories instead of many discrete job classifications), and 35 percent are considering it. Steelcase replaced 29 different pay levels with four groups. The idea is to reward employees who move horizontally. Some fear this may backfire, that some workers will be frozen on the career ladder. [Hannon]

TEAM PAY

Autonomous teams are what managers typically think of when they talk about “team concept” operations. Issues are how to pay employees for the expanded skills and responsibilities they shoulder, how to reward teams for ever-higher levels of performance, and how to reinforce cooperation among teams. [O'Dell]

These pay-for-knowledge-and-skill plans (PFKs) compensate an employee for the jobs he or she can do rather than on the employee's assignment for a given day. With more flexible, multiskilled employees, some firms have found that they need fewer employees—about 10 percent fewer. About 8 percent of manufacturing firms offer PFK, usually as part of a team concept. The approach is spreading in service organizations as well. An impressive 89 percent of these firms report that the plans have a very positive impact on performance. Managers report that these operations are, on average, about

30 percent more productive and 30 percent lower in cost than comparable locations not using team structures and PFK systems. [O'Dell]

Examples from O'Dell's research:

- The volume of work is up 33 percent, while reduced staffing needs have lowered costs by \$200,000 a year. The work is much more demanding, and employees have to be ready to take initiative for their own extensive learning. Potential problems: Paying for skills companies do not actually use, since they do not need that much flexibility or managers do not rotate the workers.
- Share the gains through base-pay increases, team incentives, or company-wide bonus systems such as gain-sharing. About 15 percent of firms have some sort of small-group bonus system.
- Team members can earn extra money, up to \$15,000 a year per person, through a bonus plan tied to costs and benefits. The team processes double the number of lease applications as under the old system, in much less time, and with better service. [O'Dell]

How to create cooperation among teams that have different reward systems? Establish a series of team objectives that complement one another, from the executive suite to the shop floor. Teams at the top have quality and earnings goals that translate into consistent performance goals for teams at each descending level. [O'Dell]

In one example, team bonuses were based on the volume of material that the team shipped. Production shot up, but so did conflict between teams. The team neglected machine maintenance, and quality suffered. Documenting production was time consuming, and the system was hurting company morale, so the firm switched plans. [O'Dell]

To reinforce teamwork, some distribute gain-sharing bonuses so that all employees receive the same amount. Most companies with gain-sharing now design formulas based on a family of measures. One uses seven measures to reward quality improvement. The targets are changed annually to reflect changing business conditions and priorities. The family of measures in the gain-sharing plan includes not only production criteria for rewarding team members, such as raw-material yield, paper yield, quality costs, and amount of waste scrap, but also administrative criteria, such as orders processed correctly and shipped on time. Customer satisfaction, which is measured by monthly and quarterly surveys and must be maintained or exceeded, is the basis for cash bonuses. [O'Dell] [The HHS balanced scorecard results may best be implemented through team participation and performance.]

One company has a three-tiered pay-for-performance plan for all employees that reflects individual, natural-work-group, and company-wide results, using a combined

score. Bonuses can reach 10 percent of pay. “Let the team decide,” urges Lawler. [O’Dell]

PITFALLS

Some of the pitfalls in award and recognition have become a regular part of the comic pages and less-serious management advice books. In a review of *Dogbert’s Management Handbook* by Scott Adams, Alan Farnham in *Fortune*, says that Dogbert sinks his teeth into topics such as cash awards. Cash rewards do have a place, if used sparingly:

Cash rewards should be small enough to have no impact on company earnings but large enough so the employee won’t rip the check up, chew it until it becomes a paper-mache saliva ball, and spit it against the side of your head. Try \$500. Only a few superstars should qualify; otherwise, the value of the reward will be cheapened. You want employees to come in every morning and say, ‘I may be the worst employee in the company now, but if I work 18 hours a day I’ll have a 1 in 100 chance of winning \$250 in after-tax spending money! Helloooo, Monte Carlo! [Farnham]

General Pay Systems

A CASE STUDY OF A NEW PAY SYSTEM AND ORGANIZING TEAMS

The *Harvard Business Review* published a case study concerning a new type of pay system. The case study was discussed by four participants who analyzed a variety of motivational concepts. Michael Beer, a professor, most closely followed the intrinsic motivation precepts. He finds that people either work effectively in teams or they don’t. Pay is usually a distraction and it rarely improves teamwork. A prevailing mythology today holds that pay can be redesigned to motivate individuals to work differently. He says “That’s simply not true.” Pay is not the right tool to effect change. Telling people you are going to change the compensation system rallies them around compensation, when what you want them to do is rally around making teams work. Pay’s function is to create equity and fairness. It should attract people to an organization and keep them there. Pay should not be an active ingredient in promoting teamwork and motivating performance. Organizations should change how they work before changing how they pay.

Effective managers help teams succeed by addressing the entire organization’s performance objectives. They diagnose how teams operate, and they develop ways to improve them. The only justification for tinkering with pay occurs when the pay system itself is creating barriers to change. Workers resist formal changes such as pay redesign because such changes are perceived as representing final decisions about new roles and responsibilities that haven’t been accepted yet. Instead, change should be an organic process that evolves as people learn and adapt to the new work structure.

Most organizational changes are made without an effective diagnosis. People change the wrong things, because they fail to identify the root causes of the problem at hand. They should really be asking how well teams are working. If teams are not working, they should identify why and be prepared to examine their roles and the roles of their teams in creating the barriers. Is there even consensus at the top on the need for teams? Have managers identified how their roles will change if teams are to function effectively? Are they really prepared to change to teams?

Professor Donald Berwick also discusses the need for employees to participate in the improvement of work. Total quality comes not from contingencies set up by managers but from the native curiosity, pride, and desire for craftsmanship that are likely to be widespread in the workplace. The best-quality managers understand that celebration, recognition, and joy in good work are powerful motivators. Berwick discusses the poor use of numerical goals. If the firm wants its employees to move forward, it has to allow them to develop meaningful targets. Payment by the numbers invites expensive investments in internal gaming: managers and employees will play by the numbers instead of improving their methods. These results—and not the capabilities that create these results—will be rewarded. Berwick believes that there should be a system for rewarding new competencies and learning. He notes that one of the Baldrige Award winners has been enormously successful in using such tools as putting employee photos on the walls, giving gifts, having celebrations, and getting top management to acknowledge how well teams are doing.

The other two commentators are Maggie Coil, a vice president for compensation, and Tom Nyberg, a senior business systems specialist. Coil believes that teamwork, the primary goal, must dictate the form of compensation; formal aspects of compensation design should follow—not lead—the process. At-risk pay is a reasonable idea that has worked in many companies, but the fundamental principle for success relies on employees' seeing and understanding the relationship between their contributions and their pay. In many cases, entitlement mentality and paternalism still rule the roost. She suggests gain-sharing—linked very specifically to what individual work teams do.

Nyberg noted that people in the organization will not support a program they don't understand. He discussed a similar situation that involved a 12-member cross-functional team during a 3-month period of intense training, during which they met 3 times a week to read cases, study the plans of other corporations, and learn from compensation experts. There must be ownership by both the employees and the development team. The plan cannot be too complicated. There is danger that a change in plans will be viewed as a take-away of something to which the employees are entitled. A very gradual phase-in may be needed. [Ehrenfeld]

ALTERNATIVE COMPENSATION

Alternative compensation approaches have become widespread enough to be the subject of newspaper articles. [*USA Today*] The old compensation system depended heavily on seniority, cost-of-living increases, and other gauges critics deride as entitlements. It's a change from paying people in fixed dollars to paying them in a portion of fixed dollars, plus a portion of variable dollars.—Sandra O'Neal, author of *Compensation Challenges and Changes*. The amount of “at risk” pay depends heavily on your job and on your job's ability to affect change in the company. A clerical worker might find about 6 percent of annual pay placed in the at-risk category, while a senior executive might risk 25 percent or more of salary, O'Neal says. Many low-level employees yearn for the predictability of the seniority and cost-of-living increases.

The new schemes go under the names of alternative pay, variable pay, strategic reward systems, new pay, etc. Most alternative pay programs affect raises and bonus pay—not the core or base wages. O'Neal estimates that about 30 percent of the nation's companies already have shifted some or all divisions from old pay to new pay.

Gain-sharing is an expanded version of profit sharing. Sears—in a pilot program in 30 stores—has a plan that for every dollar in excess of profit goal, the company will share 35 cents on the dollar evenly among the staff. Monthly or quarterly payouts are typical. A survey by Buck Consultants shows that 19 percent of Fortune 1000 companies have a gain-sharing plan and that another 13 percent are considering it.

Broadbanding is a strategy to reorganize employees into more segments within a job level, or band, allowing managers to advance employees without promoting them out of their jobs. Broadbanding is the fastest growing type of alternative pay strategy, says Buck Consultants. Almost 25 percent of companies surveyed use broadbanding, up from 18 percent in 1995 and 12 percent in 1994.

Team-based pay is marked by raises based on team performance. Just a little more than 11 percent are using team-based pay; 29 percent say they are considering it.

Lump-sum merit increases are another approach. The good news: You get your money up front. The bad news: Your base salary does not change. Lump-sum increases are the most popular variable-pay method in the Buck survey; 50.2 percent of companies use this method now.

Competency-based pay is the method most talked about, but least used. This radical reworking of wages would stop paying workers on the basis of their job titles and pay them instead on what they can do. Raises would be awarded for new skills acquired. Only 8 percent of companies with more than \$1 billion in annual revenue now employ a competency-based pay program, reports Harvard Business School's *Management Update*. But 78 percent say they plan to start within the next 2 years.

Towers Perrin's most recent research found that 58 percent of U.S. companies are re-viewing their current pay structure, questioning its focus and intent. More than 90 percent say the goal of any new pay structure will be to link wages more closely with the company business strategy. Jack Stack, chief executive of Springfield Remanufacturing in Springfield, Illinois, says "we needed to create a system where people can think, act and feel like owners." Now the company has a gain-sharing program, with specific goals outlined. Payouts come quarterly; as much as 18 percent of a worker's pay is at stake. The company defines a weakness—such as the high debt level the company carried in the late 1980s. Employees are told the goal: Wipe out this weakness.

Though new pay is a hot topic, many companies are still just testing it, by adding alternative pay programs on top of existing wage strategies. Only 20 percent of those surveyed have replaced merit and cost-of-living increases with alternative pay programs.

Hewitt Associates found companies reluctant to take a hard line when goals were missed. Some 85 percent of companies with variable pay plans paid even when goals were not attained. Does new pay work? Early survey data indicate that it does. A study by the Employment Policy Foundation reports that a program of gain-sharing, combined with employee involvement and suggestions, increased productivity by 13 percent. Proponents also see new pay as a way to avoid layoffs. "If you view payroll as a variable cost, rather than a fixed cost, you have more flexibility to make the cost structure more competitive," says Abosch. "It's a reward system used to create focus," says Jerry McAdams of Watson Wyatt. [*USA Today*]

PAY-FOR-PERFORMANCE

Robert G. Eccles, in "The Performance Measurement Manifesto," notes that what gets measured gets attention, particularly when rewards are tied to the measures. What matters is how a company is doing compared with its current competitors, not with its own past. The new system should be aligned with the company's goals—to reward people in proportion to their performance on the measures that management has said truly matter. This is easier said than done. In many companies, the compensation system limits the amount and range of the salary increases, bonuses, and stock options that management can award.

In companies that practice pay-for-performance, compensation and other rewards are often tied fairly mechanically to a few key financial measures such as profitability and return on investment. Convincing managers that a newly implemented system is really going to be followed can be a hard sell. The president of one service company let each of his division general managers design the performance measures that were most appropriate for his or her particular business. Even so, the managers still felt that the bottom line was all that would matter when it came time for promotions and pay.

The difficulty of aligning incentives to performance is heightened by the fact that formulas for tying the two together are rarely effective. Formulas have the advantage of looking objective, and they spare managers the unpleasantness of having to conduct truly frank performance appraisals. But if the formula is simple and focuses on a few key variables, it inevitably leaves some important measures out. On the other hand, if the formula is complex and factors in all the variables that require attention, people are likely to find it confusing and may start to play games with the numbers. Moreover, the relative importance of the variables is certain to change more often—and faster—that the whole incentive system can change.

For these reasons, Eccles favors linking incentives strongly to performance but leaving managers free to determine their subordinates' rewards on the basis of all the relevant information, qualitative as well as quantitative. Then it is up to the manager to explain candidly to subordinates why they received what they did. For most managers, this will also entail learning to conduct effective performance appraisals, an indirect—and invaluable—benefit of overhauling the measurement system.

We are talking about a new philosophy that regards performance measurement as an ongoing, evolving process. [Eccles]

Some companies may adopt MBNA's policy of delivering employee paychecks in envelopes labeled "Brought to You by the Customer." However, they must also base the bonuses inside those envelopes on the incentives that enhance customer value and loyalty. [Reichheld]

PROFIT SHARING

Robert Frey, the manager at Cin-Made composite can company, has written an article describing changes there. He says that behavioral change begets attitudinal change, not the other way around. If you force people's behavior to change, their attitudes will change as well. The company introduced the sharing of 30 percent of profits—half to hourly personnel, half to salaried personnel. It instituted a program of merit raises, with which about 75 percent of employees have been rewarded for acquiring competencies above and beyond their basic skills. Three times each year—on September 30, December 20, and March 30—every hourly worker gets a check for his or her equal share of the pretax profits from the previous fiscal year. For example, in the 1st year each worker received \$0.58 per standard hour worked. In the 2nd year there was no payout; in the 3rd, \$0.41 per standard hour worked; in the 4th, \$0.11; in the 5th, \$2.82; and the 6th through 10th years averaged \$2.62—a 36 percent increment to income. Frey reports that the effect has been electrifying. [Frey]

PAY/PROFIT

There has been increasing interest in approaches that tie payouts to profits or measures of profitability. One approach is a deficit reserve, which involves the withholding of a portion of the employee's share of the gain-sharing pool.

Some use the terms "gain-sharing" and "variable pay" interchangeably. The former term is most often associated with employee involvement efforts, while the latter is more likely to be used where the primary objective is to make compensation costs more responsive to business results. Many types of plans have been developed, including Scanlon (costs), Rucker (costs), and Improshare (productivity).

Firms should have a family of measures—multiple, independent measures to quantify performance improvement, such as quality, delivery performance, customer satisfaction, safety, reduction of absenteeism, employee involvement, customer retention, speed of turnaround time, etc.

An alternative approach is based on goal achievement. Also known as goal sharing, it is simpler to construct and to communicate. It may be based on productivity and cost issues, with the focus on quality, customer satisfaction, and safety. Plans are tied to the achievement of preexisting organizational goals. Some plans lack credibility, particularly when goals are set unrealistically high. One way to enhance credibility is to involve the employees. Also, practitioners should try to avoid often-complex arithmetic.

Probably the only realistic way to measure customer satisfaction directly is through a customer survey. Other approaches have tried to measure it using customer returns, on-time delivery, and customer complaints.

There are two implementation approaches for determining employee shares, the variable share and the modifier. With the variable share approach, the gain-sharing pool is determined in the normal fashion, such as by aggregating the gains according to a cost formula or a family of measures. The individual employee share of the gains is not predetermined but is rather a function of some consumer satisfaction indicator. The employee share might be based on rejects in parts-per-million. The share might be a maximum of 60 percent. The message is: We will share cost savings with you, but not at the expense of customer satisfaction.

The second alternative, the modifier, also starts with a gain-sharing pool. Here, the employee share is a fixed percentage of the pool. The customer satisfaction measure, however, is used to modify, or adjust, the size of the pool, either before or after the employee share calculation. The pool is based on the aggregate gains realized through improvements in productivity, scrap, manufacturing supplies, and safety. Modifiers are delivery performance and customer complaints. The number of customer complaints can increase the pool by up to 4 percent or reduce it by up to 3 percent. Delivery perform-

ance, as measured by the percentage of on-time deliveries, can increase or decrease the pool by up to 5 percent.

The obvious (and traditional) way to tie pay to profitability is through a profit sharing plan. While cash profit sharing does effectively provide for variable compensation and may represent the final step in a company's variable pay evolution, it probably does little to change employee behaviors.

How to gain the organizational benefits of gain-sharing while ensuring that payouts reflect, at least to some degree, the profitability of the business? Three approaches are to use a profitability gate, a variable share, or a financially funded family of measures. The profitability gate requires that a certain level of profitability be achieved in order for a gain-sharing payout to be made. It may simply be that the business is profitable, but the gate's all-or-nothing nature can cause some undesirable outcomes. A lower risk alternative is the variable share. It ties the employee share of the gain-sharing pool to another variable, such as customer satisfaction. All are intended to moderate the gain-sharing payout when profitability is inadequate. In a financially funded family of measures, the pool of money available for distribution to employees is partially a function of profitability. Payout is also contingent upon achieving other goals. Half of the pool is paid on the basis of profitability. Full distribution is contingent upon achieving six organizational goals, such as the following:

- ☐ Productivity: 10 percent
- ☐ Scrap: 10 percent
- ☐ Rework: 10 percent
- ☐ Safety: 10 percent
- ☐ Customer rejects: 5 percent
- ☐ Attendance: 5 percent.

Maximum payout from profit sharing will be realized only if employees contribute to profitability gains by improving performance measured by those variables over which they have some control.

A variation on the financially funded approach involves the use of cost reduction, rather than profitability, as the funding mechanism. When costs fall below a baseline ratio, 50 percent of the cost savings form a pool. Only 30 percent of the pool is distributed without further condition, however. An additional 30 percent is paid out if a customer service goal is achieved. Payout of the remaining 40 percent of the pool is contingent upon achieving one to three additional goals established at each location by a management/employee team.

A deficit reserve involves withholding a portion of the employees' share of the gain-sharing pool. If, in subsequent periods, deficits in the gain-sharing program are incurred, the employees' share of the deficit is charged against the reserve account. Whatever funds remain in the pool at year-end are paid out to employees. This approach is not particularly effective if losses are frequent or substantial. Employees often view the withholding of part of their bonuses as unfair.

Creative alternatives include the following:

- Rolling payout—gains (or losses) from two or more periods are averaged.
- Loss recovery method—employees' payouts are reduced (or eliminated) for periods following a gain-sharing deficit.
- Year-to-date payout—quantifies the appropriate employee payout for the year-to-date period, then subtracts the amounts that have been paid in previous periods (effectiveness is lessened when deficits occur later in the year).

One predominant and traditional method of distribution is to divide the available funds by the payroll cost (e.g., each employee would receive a bonus equal to 5 percent of gross pay). Another is to divide the pool by the number of participating employees (e.g., each participant would receive \$200). Employee design teams and plan participants usually prefer the latter method of distribution. However, the Fair Labor Standards Act (FLSA) requires retroactive adjustments to overtime pay when that method is used. In brief, FLSA states that bonuses must be included as part of the nonexempt employee's compensation when calculating the 50 percent overtime premium. The law allows only certain limited exceptions such as discretionary bonuses and profit sharing bonuses—bonuses that are paid as a percent of the employee's total gross compensation. It is for this reason that the percent-of-income distribution method is the most widely used approach.

Creative alternatives to avoid these problems have been developed. One simple approach is to cap the payout for FLSA-exempt employees. The typical rule is that exempt employee bonuses cannot exceed the highest bonus earned by a nonexempt employee. This has limited effectiveness if some have high overtime pay. Another way is to distribute bonuses on the basis of hours worked or hours paid. Overtime hours should receive 1 1/2 hours credit. Another approach is to use a segmented pool. While the law exempts percent-of-income payouts from the overtime rule, it does not require that all employees receive the same percentage. The lower earners would thus receive a higher percentage bonus. The segmented pool cannot be carried to its logical extreme: segmenting the pool by individual.

Other Design Innovations

The sharing arrangement may be adjusted. The traditional approach is to share the total gains realized using a single ratio, such as 50/50, 60/40, or 75/25. A nontraditional model might be based on value added, 30 percent; quality complaints, 50 percent; safety, 100 percent. It is not uncommon today, for example, to find multiple criteria for establishing baselines for different measures in the formula. One idea was to have it based on the average performance level achieved over the prior 2 years; any improvement over this 2-year average would be shared. After analyzing the past performance for each measure, however, it became apparent that this decision would not make business sense in all cases. So using only one year may be better. Or, the use of history may be abandoned altogether, and an improvement target can be established as the baseline. The goal is to establish a variable pay plan that makes sense.

The payout frequency may be semiannual, may be based on seasonal conditions, or may be annual. A few companies have adopted a variable frequency—for instance, payout will occur at the end of any month in which the pool contains at least \$50,000. This ensures that bonus checks are always substantial, thus positively reinforcing desired behavior.

Variable pay and gain-sharing programs are slowly but surely becoming mainstream elements of corporate compensation systems. [Belcher]

TQM REWARDS

Stephen Knouse, author of *The Reward and Recognition Process in Total Quality Management*, notes that Deming was against any type of pay system that promotes the individual over the organization. [22]

Gain-sharing is generally more focused than profit sharing. It focuses on producing cost efficiencies and cost savings for quality improvements, rather than emphasizing any means that would produce a profit.

Some firms have a system of pay based on skill acquisition. For example, one firm allowed production teams to develop their own skill-based pay system under which team members could move through five pay levels on the basis of peer evaluations. Skill acquisition was anchored to meeting quality standards set by the team's customers.

Team pay is used in several methods. [24]. One is contribution increases. TQM teams and supervisors rate individuals on their contributions to the team effort. In at least one company, everyone in the group receives the same raise. Another approach is group variable pay. Other companies are experimenting with pay raises given for meeting or exceeding goals on collaborative performance. They may take the form of a bonus.

Some TQM goals being used are retention of customers, external customer satisfaction, internal customer satisfaction, and product and service reliability.

Criteria for effective TQM pay systems include effective communications, employee involvement, a win-win pay philosophy, process improvement, and the employees' stake in the organization. [26]

Summary of Motivational Principles for TQM [49]

Motivation in organizations must be managed if it is to be effective. Like any other organization, the TQM organization must manage the motivation of individual employees as well as that of quality teams. Some motivation principles related to TQM are highlighted here:

- ☐ Consistency in the organizational reward process increases the perception that success leads to rewards.
- ☐ Rewards must be valued by employees and teams.
- ☐ TQM training increases expectancy of TQM task success and skill variety.
- ☐ Empowerment increases expectancy of TQM task success and autonomy.
- ☐ Team effort increases expectancy of success.
- ☐ Team input into creating the reward system increases the value of rewards.
- ☐ Employee participation improves quality performance.
- ☐ Organizational TQM goals drive individual and team goals.
- ☐ A climate of trust and support enhances quality performance.
- ☐ Challenging goals enhance pride in performance.
- ☐ Team goals enhance teamwork toward quality improvements.
- ☐ Feedback improves quality performance.
- ☐ Reward and recognition enhance task significance and feedback.
- ☐ Presenting TQM efforts to others enhances task significance.
- ☐ Customer contact enhances skill variety and feedback.

Knouse cites a number of organizational examples of the reward and recognition process.

Lou Ana Foods has a year-end bonus for all based on profitability. In addition, the company gives the Nathan Frank Award (\$1,000) to the employee who best exemplifies total quality. During National Quality Month, the firm has a Total Quality Fest with railroad motif awards: Crewman's Award conferred on a peer by fellow employees, Brakeman's Award for a team or individual for best waste reduction, and Chairman's Award for overall outstanding team. The firm also has a suggestion program for teams—with a \$5 cash incentive for each team member, for each suggestion implemented—plus a quarterly program with an additional bonus and prizes (gifts and tickets). In a recent year, Lou Ana received 47.7 suggestions per employee—96 percent of those suggestions were implemented. [53]

Motorola has a Total Customer Satisfaction Team Competition (Quality Olympics) with gold, silver, and bronze medals. In 1993, 4,400 teams competed for 24 slots in the finals.

At Storage Technology Corporation, individuals can win the Outstanding Contribution Award, Technical Excellence Award, and Chairman's Quality Award. Teams can win the Outstanding Performance Award. Awards are supplemented by gifts, certificates, letters of commendation, dinners, and trips for off-site career enhancement.

Stuller Settings has a program called Ideas Pay. A suggestion committee evaluates each idea, and awards start at \$10 (one employee received \$1,500). About 25 percent are implemented by management.

Florida Power and Light had small monetary rewards and banquets—employees resented them as being too small. They preferred to see their suggestions in action, so the organization started an expo fair to demonstrate improvement efforts to other employees and the community.

IBM Marketing has a three-step cash award program: the cash award, a surprise gift sent to the employee's home, and an experience to remember the event (show tickets or dinner). The organization also has a peer-to-peer award. An employee or customer nominates a peer. The award recommender then receives \$20 to buy a gift for the awardee. IBM also has a market-driven quality award. A team nominates another team on the basis of teamwork and use of quality tools and processes.

The City of Phoenix awards 10 percent of the savings from suggestions, up to \$2,500. Suggestions having intangible results can receive awards of \$25 to \$500. There is the City Manager's Excellence Award, which includes breakfast, is televised, and features a picture of the awardee placed in the municipal

building. Also, certificates, plaques, and pins are awarded. Awards are determined by the award selection committee.

At BPH Steel (Australia), employees gain points for quality team participation and for discovering opportunities for improvement (identifying a problem or a means of improving a process). The points can then be traded in for restaurant dinners.

Knouse finds that lessons-learned include the following:

- Create an environment that allows all to benefit.
- Ensure that rewards are not concentrated on a few.
- Continually change the focus of some awards. [117]

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